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

PENSION TRUST FUNDS OF THE STATE OF NEBRASKA

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Issued on May 1, 2012

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

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BACKGROUND

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

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

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

Two appointed members must meet the following requirements:

- ♦ Shall not be an employee of the State of Nebraska or any of its political subdivisions; and
- ♦ 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.

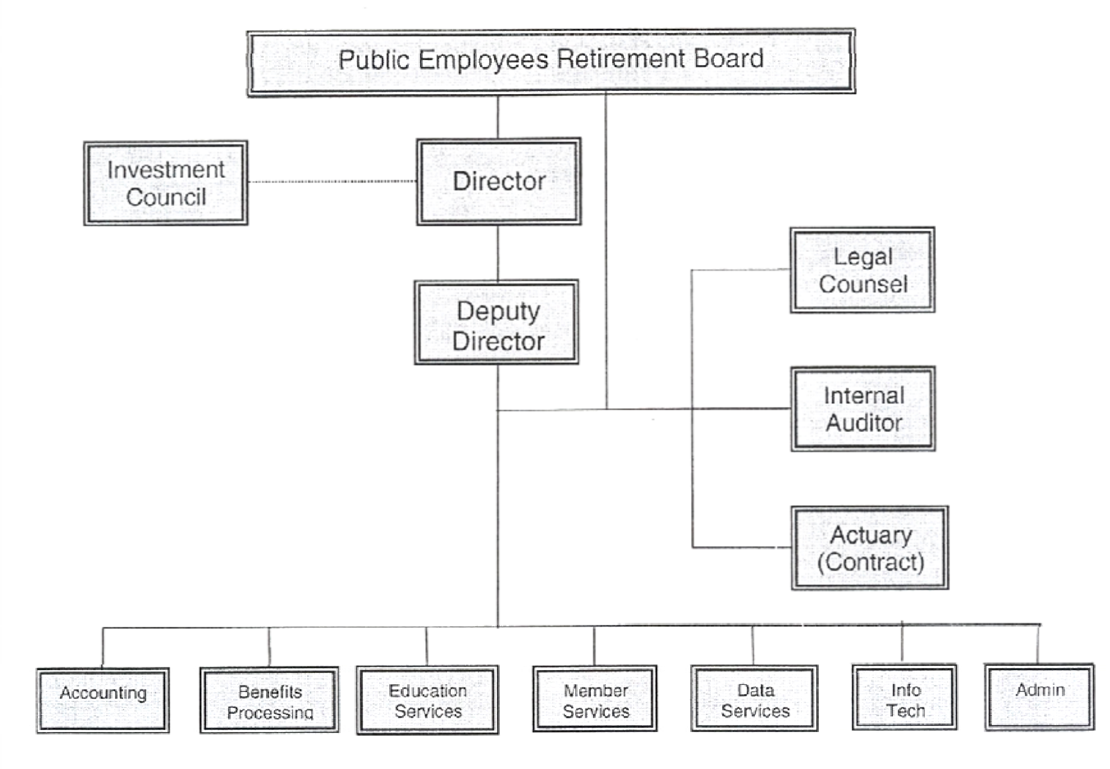
Furthermore, the State Investment Officer serves as a nonvoting, ex-officio member.

All appointed members must be Nebraska citizens. 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 Systems recognizes the importance of a successful retirement and is dedicated to providing the highest quality service necessary to assist members in achieving this goal.

ORGANIZATIONAL CHART



EXIT CONFERENCE

An exit conference was held April 12, 2012, with the Nebraska Public Employees Retirement Systems (NPERS) to discuss the results of our audit. Those in attendance for NPERS were:

NAME	TITLE
Denis Blank	Board Chair
Glen Elwell	Board Member
Ron Ecklund	Board Member
Richard Wassinger	Board Member
Phyllis Chambers	Director
Randy Gerke	Deputy Director
Jason Hayes	Legal Counsel
Miden Ebert	Benefits Manager
Teresa Zulauf	Internal Audit Manager
Christine Ford	Internal Auditor
Mitch Snyder	Retirement Specialist
Maria Davis	Retirement Specialist

SUMMARY OF COMMENTS

During our audit of the Nebraska Public Employees Retirement Systems (NPERS) - School Employees, Judges, and State Patrol Retirement Plans, we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here.

1. ***School District Testing:*** During our review of NPERS' internal audit staff testing of school districts, we determined the procedures performed by the staff were not adequate for our reliance. Therefore, we performed further testing of 12 school districts; we noted ineligible components of compensation and lack of support for compensation. We also noted one individual stopped contributing to the Plan and began to receive a retirement benefit; however, the individual continued to work for the school district and had received ineligible benefit payments totaling $33,280 through February 2012. Additionally, five individuals tested were improperly not contributing and two did not begin contributing to the Plan timely. A similar finding has been noted since the fiscal year 2000 audit.

2. ***Resolution of Prior Year School Audit Findings:*** There were 10 of 27 prior audit findings that were not properly resolved. Findings included ineligible compensation totaling $13,750, untimely follow up on deceased members' accounts totaling $4,196, noncompliance with minimum distribution requirements, discrepancies in reported wages, hours, and contributions, overpayments totaling $2,123, and underpayments totaling $320 to deceased members or their estates. A similar finding was noted in the last eight audit reports.

3. ***Berwyn Death Audit Review:*** Of the 26 findings remaining from the January 31, 2009, attestation review of the Berwyn Death Audit, 10 were not properly resolved. There still remained $13,295 in overpayments that NPERS had not received and several accounts that had no procedures performed to resolve the prior findings. Additionally, we reviewed NPERS' 2011 Berwyn reports and noted procedures were not adequate, including an overpayment of $3,416, and follow-up was not timely, for instance NPERS did not perform procedures for approximately 49 months after the date of death for one deceased member with an account balance. Furthermore, the query used to generate the death audit was not complete. A similar finding was noted in the last audit report.

4. ***Lack of Statutory Authority and Rules and Regulations:*** When NPERS determined a member of the Plans to be ineligible to participate, the ineligible contributions were not refunded to the member in compliance with State statute and Rules and Regulations if the ineligible contributions were older than two years or less than $50. NPERS did not appear to have statutory authority or the proper Rules and Regulations for the procedures performed.

5. ***Lack of Written Procedures and Proper Controls:*** NPERS did not have written policies and procedures for changes and reviews performed in the system by staff to ensure transactions were consistent and proper. We noted one individual's benefit was not calculated properly causing an overpayment of $391. Furthermore, NPERS did not have written policies and procedures for the determination and calculation of the savings and service annuity outlined in statute.

SUMMARY OF COMMENTS
(Continued)

6. ***Lack of Adequate Procedures Regarding Required Minimum Distributions:*** NPERS lacked adequate procedures for the review and payment of required minimum distributions (RMD) for individuals age 70½ or older. One member was not paid an RMD for calendar years 2009 and 2010 in the amounts of $676 and $674 respectively. Additionally, two members were not paid an RMD for calendar year 2010 for a total of $873. A similar finding was noted in the prior year audit report.

7. ***Shared System Access:*** NPERS had one system ID which was shared between two NPERS' developers that allowed for insert/update/delete access to the production database. Inadequate authentication procedures may lead to financial loss and operational damage through unintentional or deliberate unauthorized access, alteration, and use of information resources. Shared IDs make it difficult to identify the individual who accessed the computer system.

8. ***Inconsistent Plan Documents:*** We noted plan documents (Rules and Regulations, Plan Handbooks, Employer Manuals, and Forms) that were not consistent. We further noted four State statutes that required corresponding rules and regulations to be established by the Board for which there were none.

More detailed information on the above items is provided hereafter. It should be noted that this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

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.

COMMENTS AND RECOMMENDATIONS

1. School District Testing

Neb. Rev. Stat. § 84-1503(1) (Reissue 2008) states, "It shall be the duty of the Public Employees Retirement Board: …(g) 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."

A good internal control plan requires adequate policies and procedures for internal audits performed to ensure individuals are properly contributing or not contributing to the School Plan in accordance with State statute.

During our audit it was noted NPERS' internal audit staff performed testing procedures on 21 school districts during the fiscal year. Of the 21 school districts tested, only 8 had been reviewed by the internal audit manager. To determine if the work of the internal audit staff was adequate for our audit reliance we reviewed 4 of the 8 school districts which had been reviewed by management.

We tested 18 contributing members and 20 non-contributing employees tested by NPERS from the four school districts tested and noted the following:

- NPERS did not obtain adequate documentation for six members tested to ensure wages were proper in accordance with State statutes. Two members had components of their compensation excluded from retirement contributions. NPERS did not perform further procedures to ensure the exclusion was proper. One member's employment agreement referred to fringe benefits; however, NPERS did not perform further procedures to ensure fringe benefits were excluded from compensation. For three members the employment contracts were not obtained to ensure all components of the members' compensation were allowable.

- NPERS determined one employee tested had 8.75 hours under-reported by the employer. However, according to the documentation obtained by NPERS, the employee had 13.75 hours under-reported.

When a member's compensation increases by more than 7% from the preceding plan year, Neb. Rev. Stat. § 79-902(35)(e) (Cum. Supp. 2010) requires the compensation to be excluded from retirement unless one of three exemptions outlined in statute is met. NPERS performed testing of members with exemptions filed during the fiscal year. We selected 11 members from NPERS' testing and noted NPERS did not obtain adequate documentation for 10 of 11 members tested. NPERS did not consistently include all compensation components during their testing of the employee's increase in salary. NPERS also did not consistently obtain members' employment contracts and compare the wages to NPERS' information system to ensure the increase was adequately explained.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. <u>School District Testing</u> (Continued)

Furthermore, for the four schools tested, NPERS did not perform follow up on all of the findings they reported to the schools. Additionally, the internal audit manager did not review the follow-up performed by the internal auditor to ensure follow-up was adequate and proper.

As we were unable to rely on the testing procedures performed by the internal audit staff, we performed additional procedures during the audit. We selected 12 school districts to test to ensure non-contributing employees properly were not enrolled in the Plan, contributing members' wages, hours, and contributions from the payroll registers agreed to NPERS' records and obtained support for the composition of wages earned to ensure retirement contributions were being properly withheld in compliance with statutes.

We tested 38 non-contributing employees from the 12 school districts. We performed testing to ensure employees were properly not contributing to the School Plan and noted the following:

- One of 38 employees tested participated in the Plan until May 2010, then began receiving a retirement benefit in June 2010. However, the member continued working for the school after he had retired. According to Neb. Rev. Stat. § 79-902(36) (Cum. Supp. 2010), an individual is not eligible for a retirement benefit if their break in employment is less than 180 days. The employee worked continuously from September 2010 through June 2011 and had received benefit payments totaling $33,280 through February 2012.

- Five of 38 employees tested were not contributing to the Plan; however, the individuals met mandatory eligibility, and therefore, were required to begin contributing. The five employees missed from five months to one year of contributions and had not entered into make-up agreements.

- Two of 38 employees tested did not begin contributing to the Plan timely. The employees began contributing two months and four months late. Furthermore, the second employee tested had incorrect wages and contributions reported to NPERS for the first three months of contributions to the Plan. The school district only withheld retirement on extended school year wages for April 2011, overtime wages for May 2011, and did not withhold retirement on June wages. Wages and contributions were under-reported by $5,785 and $479 respectively.

Additionally, as noted in several previous audit reports, there was an inconsistency among school districts regarding the components of compensation for retirement purposes due to NPERS' lack of authoritative guidance regarding the proper interpretation and application of statutory language. During testing we noted the following:

- Two of nineteen members tested had ineligible compensation reported to NPERS. One member's annual compensation included $1,320 for a communication stipend noted in the School contract as a fringe benefit for costs associated with the purchase

COMMENTS AND RECOMMENDATIONS
(Continued)

1. School District Testing (Concluded)

and use of a cell phone. The second member's compensation included payment for family health and dental coverage. However, the employee only elected employee plus spouse coverage. Therefore, the yearly difference of $4,276 was paid to the employee in the form of cash. According to Neb. Rev. Stat. § 79-902(35)(b) (Cum. Supp. 2010), fringe benefits and insurance premiums converted into cash payments are not allowable in retirement compensation.

- The school districts could not provide support for all components of the member's compensation to ensure it was allowable per statute for two of nineteen members tested. One member's annual compensation included $324. The school district stated it could be long-term disability insurance but they had no documentation to support the amount. According to Neb. Rev. Stat. § 79-902(35)(b) (Cum. Supp. 2010), long-term disability insurance is not allowable for retirement compensation. The second member had annual extended school year wages totaling $5,372; the school had no documentation to support the wages.

Without adequate documentation to support procedures performed and conclusions drawn, reliance cannot be placed on testing as there is no assurance testing was accurate or complete. Additionally, without adequate procedures to ensure school districts are properly adhering to State statutes and NPERS' policies and procedures there is an increased risk wages remitted will not be proper, employees will not properly contribute when required, or ineligible employees will be allowed to participate in the Plan. A similar finding has been noted since the fiscal year 2000 audit.

> We recommend NPERS ensure school district testing is adequately documented, followed up, and reviewed by a supervisor. Additionally, we recommend NPERS ensure proper education is given to the school districts to ensure employees are properly contributing or not contributing to the Plan and that compensation is proper in accordance with State statute. Furthermore, we recommend NPERS ensure the member receiving retirement benefits refund the ineligible benefit payments and resume contributing to the Plan.

NPERS' Response: NPERS has strengthened the review procedures to make certain each school employer audit is adequately documented, followed up and reviewed by a supervisor.

There are 276 school districts and entities. NPERS makes numerous efforts to communicate with the school employers. We provide educational seminars every summer for school reporting agents. The school employer manual is updated prior to the seminars. If a school employer reporting agent is not in attendance, the manual will be mailed to them. NPERS sends written communications and emails to the school reporting agents to keep them informed of changes and updates.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Resolution of Prior Year School Audit Findings

A good internal control plan requires the timely and thorough resolution of prior audit findings.

During our review of NPERS' procedures to resolve prior audit findings we noted 10 of 27 findings remained for the School Plan. Six findings from the 2010 audit, three findings from the 2009 audit, and one finding from the 2008 audit were not adequately resolved as follows:

2010 Findings

- One member's annual compensation included $13,750 in fringe benefits and should not have been included in the member's retirement compensation. NPERS contacted the school during fiscal year 2011 to correct the ineligible compensation. The school disagreed with NPERS and filed an appeal with the Retirement Board in October 2011. NPERS then requested additional information for further review of the compensation in question, to be submitted by October 31, 2011. However, the school had not responded to the request and had not changed their incorrect reporting of ineligible compensation.

- NPERS did not perform timely follow up procedures for two members who died in March 2009 and one member who died in May 2010. NPERS did not attempt to contact the beneficiaries of the deceased members within six months of the date of death and/or every year thereafter. Account balances totaled $4,196.

- One member was required to receive a minimum distribution on April 1, 2010, for calendar year 2009 and by December 31, for calendar years 2010 and 2011. NPERS had not distributed any funds to the member in accordance with the Federal and State regulations.

- During the prior audit NPERS noted one member had hours reported incorrectly by the employer. NPERS calculated an under-reporting of 4 hours, which the school corrected during fiscal year 2011. However, the Auditor of Public Accounts (APA) calculated an under-reporting of 6.92 hours for the month tested. NPERS did not follow up on the remaining variance of 2.92 hours which was not corrected.

2009 Findings

- One member received payments past their date of death totaling $1,524. Payments were not to continue after death, in accordance with the option selected by the member upon retirement. NPERS last contacted the member's son in November 2010 but had not received repayment and had not performed further follow up procedures.

- NPERS did not correctly calculate two estate refunds. One member's estate received an overpayment of $599. The second member's estate was underpaid $320. NPERS had not performed adequate follow up procedures to collect the overpayment or refund the estates.

COMMENTS AND RECOMMENDATIONS
(Continued)

2. Resolution of Prior Year School Audit Findings (Concluded)

2008 Findings

- One member did not have correct hours, wages, and contributions reported to NPERS. The school under-reported 11.85 hours, wages for $40, and contributions for $3. NPERS noted this individual was ineligible to participate in the Plan and had not made any corrections to the member's account. NPERS should either refund the member's ineligible contributions in accordance with State statute and Rules and Regulations or correct the hours, wages, and contributions if the member is not refunded to ensure the account is properly reflected.

A similar finding was noted in the last eight audit reports.

Without procedures to ensure prior audit findings are resolved timely, there is an increased risk that errors in plan membership and compensation will remain incorrect. Additionally, without adequate procedures to ensure distributions are made timely, there is an increased risk payments will not be made in accordance with Federal and State regulations.

> We recommend NPERS resolve findings from prior audits, refund ineligible contributions, and make appropriate adjustments to members' records as necessary. We also recommend NPERS contact the estates and beneficiaries to attempt to collect the overpayments and correctly pay out the underpayment as noted.

NPERS' Response: NPERS will work to resolve findings from prior audits, correct contributions, and make appropriate adjustments. NPERS has reduced the number of unresolved prior audit findings. NPERS will contact estates and beneficiaries to attempt to collect overpayment and correctly pay out the underpayments.

3. Berwyn Death Audit Review

A good internal control plan requires NPERS to follow up on deceased member accounts in a timely manner to ensure the proper resolution of member accounts. Additionally, a good internal control plan and sound accounting practice requires NPERS to maintain precise and complete records on all members and that proper and complete information be sent to The Berwyn Group for the death audit.

NPERS semi-annually retains a death check verification service (death audit) from The Berwyn Group. This is used to perform comparisons of the members in the five retirement plans administered by NPERS and the Deferred Compensation Plan against national death records. The Berwyn Group generates a report which includes a listing of individuals matched against the national death records and also a listing of individuals with invalid information, such as social

COMMENTS AND RECOMMENDATIONS
(Continued)

3. <u>Berwyn Death Audit Review</u> (Continued)

security numbers, names, and dates of birth. NPERS is then responsible for ensuring the data records are adequately reviewed and resolved by terminating retirement benefits to deceased members, recovering ineligible retirement payments, paying the beneficiary or estate the account balance for members who have not previously received retirement benefits, and following up on inaccurate account information.

The APA performed an Attestation Review of NPERS Death Audit Procedures as of January 31, 2009, to ensure NPERS was properly following up on the death audit report. During the fiscal year ended June 30, 2010, audit we noted 26 of the original 80 findings had not been appropriately resolved. During the current audit we reviewed the 26 findings that remained for further follow up procedures and noted 10 of the 26 findings still existed. No procedures had been performed during the fiscal year for several of the findings noted:

- Five accounts received benefit payments totaling $13,295 past the date of death and the repayments had not been received by NPERS. The member estates/beneficiaries had last been contacted by NPERS in November 2009, December 2009, and January 2010. NPERS had not attempted to make contact during fiscal year 2011. NPERS should determine whether further contact should be made or whether NPERS should work with the State Claims Board or Attorney General's Office.

- NPERS had not attempted to contact the beneficiaries of the three accounts reported with a date of death and one account reported with invalid information. NPERS last attempted to contact the members' beneficiaries in December 2008, March 2009, and January 2010. No contact has been made regarding the invalid member account. The four members' account balances totaled $5,746. NPERS should consider whether these accounts should be sent to the State of Nebraska Unclaimed Property Division.

- One individual with an invalid social security number was required to take minimum distributions in accordance with the Internal Revenue Code 401(a). The distributions to the member should have been made beginning April 1, 2007, and every year thereafter. No payments have been made. The account balance totaled $1,951.

- Additionally, we noted beneficiaries of deceased members were not properly tracked or followed up by NPERS to ensure they are periodically contacted to resolve member account balances. Two beneficiaries were not on NPERS' death tracking spreadsheet. The beneficiaries had last been contacted in March 2009 and December 2008. According to discussions with NPERS' staff, even if members and/or beneficiaries are on the tracking spreadsheet they were not consistently followed up on to ensure resolution of the account balance. NPERS should ensure procedures are adequate to include all members and beneficiaries on the tracking spreadsheet and periodically follow up on each individual noted to ensure proper resolution of balances outstanding.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Berwyn Death Audit Review (Continued)

We also reviewed the semi-annual Berwyn Death Audit reports received by NPERS in February and July 2011. We tested 16 individuals and noted the following:

- One member received benefit payments four months past their date of death in March 2011. NPERS was able to cancel two monthly warrants. However, two payments totaling $3,416 still remained outstanding. NPERS contacted the member's beneficiary in August 2011 requesting reimbursement of the overpayments but had not yet received payment.

- NPERS did not perform timely follow up procedures for four members tested with a date of death and one member reported with invalid information. Furthermore, the four members and their beneficiaries were not recorded on NPERS' death benefit tracking spreadsheet. The member account balances totaled $2,465.

  - Three members' dates of death were May 2010, November 2010, and December 2010. NPERS had not attempted to contact the members' beneficiaries.

  - One member's date of death was reported as December 2005. The first attempt NPERS made to follow up on the account was in January 2010, approximately 49 months after the date of death. The member's account balance was sent to Unclaimed Property in November 2011. NPERS did not attempt to contact the member's beneficiaries timely.

  - One member was reported in the February 2011 Berwyn report with an invalid social security number. NPERS obtained the proper social security number from the employer in August 2011 but did not correct the member's account.

- NPERS did not send members with invalid social security numbers in their system to The Berwyn Group. The individuals' information should continue to be sent to The Berwyn Group as the death audit will match individuals' names and dates of birth to deceased records. This information would be useful for NPERS continued follow up.

- The Judge's Retirement Plan has a Joint and Last Survivor annuity option. The Joint and Last Survivor Annuity provides a monthly payment for the life of the member and the member's spouse. Upon the death of either the member or the member's spouse, the monthly payment continues to the survivor for his/her lifetime at the percentage selected at retirement. NPERS did not send spousal information to The Berwyn Group. As the spouses' information was not sent to The Berwyn Group, NPERS did not know when a spouse died requiring the Joint and Last Survivor annuity of a member to be reduced.

A similar finding was noted in the last audit report.

3. Berwyn Death Audit Review (Concluded)

Without adequate procedures to ensure the Berwyn Death Audit report and prior audit findings are properly resolved in a timely manner, there is an increased risk overpayments will be made to deceased individuals, member accounts will not be properly paid out, and NPERS will not be in compliance with Federal regulations requiring distribution of members' accounts.

> We recommend NPERS ensure a proper and timely review and resolution of prior audit findings. We also recommend NPERS ensure proper information is submitted to The Berwyn Group. Lastly, we recommend NPERS establish procedures to ensure all beneficiaries are periodically followed up on until the account balance is properly resolved.

NPERS' Response: NPERS will continue to improve our deceased member process and resolve the prior audit findings. NPERS will review its internal tracker list to contact beneficiaries who need to receive a benefit or to return an overpayment. NPERS will continue to send invalid social security numbers to The Berwyn Group and submit social security numbers of beneficiaries who are named for Joint & Survivor options.

4. Lack of Statutory Authority and Rules and Regulations

Members who contribute to the Plans in error are not refunded their ineligible contributions in accordance with both State statute and applicable agency rules and regulations. Instead, if the ineligible contributions are older than two years or are less than $50, NPERS forfeits any such amounts to the respective Plan assets.

NPERS created an internal Board Materiality Policy to "establish materiality amounts or tolerance levels for various accounting and processing procedures within the agency." The policy sets materiality thresholds for NPERS to use in determining whether errors in member accounts should be adjusted. Regarding ineligible contributions, the policy states:

> "If the combined total calculation of ineligible contributions for employee and employer are less than $50 for the time period to be refunded (no more than 2 years for employee and 1 year for employer), no refund will be made."

According to Neb. Rev. Stat. § 84-1503(2)(i) (Reissue 2008), the board is required: "To adopt and promulgate rules and regulations for the adjustment of contributions or benefits, which shall include, but not be limited to: (i) The procedures for refunding contributions, adjusting future contributions or benefit payments, and requiring additional contributions or repayment of benefits; (ii) the process for a member, member's beneficiary, employee, or employer to dispute an adjustment to contributions or benefits; and (iii) notice provided to all affected persons. All notices shall be sent prior to an adjustment and shall describe the process for disputing an adjustment to contributions or benefits…"

COMMENTS AND RECOMMENDATIONS
(Continued)

4. <u>Lack of Statutory Authority and Rules and Regulations</u> (Continued)

2012 Neb. Laws 916, § 43, will revise Neb. Rev. Stat. § 84-1503(2)(i), adding requirements for the adoption of rules and regulations to establish "materiality and de minimus amounts for agency transactions, adjustments, and inactive account closures…" NPERS had not adopted and promulgated the requisite rules and regulations to adjust member accounts or established proposed rules and regulations for the de minimus amounts.

Additionally, NPERS cites Neb. Rev. Stat. § 79-977.01 (Reissue 2008), Neb. Rev. Stat. § 24-713.01 (Reissue 2008), and Neb. Rev. Stat. § 81-2037 (Reissue 2008), each of which states that every claim or demand against NPERS "shall be forever barred unless the action is brought within two years of the time at which the claim accrued." According to NPERS, these statutes permit the Board to keep ineligible contributions in the Plan assets instead of refunding them to the members.

Nowhere in State statute or rules and regulations adopted by NPERS, is the Board authorized to retain ineligible member contributions. To the contrary, according to Neb. Rev. Stat. § 79-904.01 (Reissue 2008), Neb. Rev. Stat. § 24-704.01 (Reissue 2008), Neb. Rev. Stat. § 81-2019.01 (Reissue 2008), when dealing with contributions or distributed benefits not in accordance with statutory provisions of the Plans, the Board is expressly restricted to refunding contributions, requiring additional contributions, adjusting benefits, or requiring repayment of benefits paid. Furthermore, Title 303 NAC 18-003.01 states, "If NPERS determines that a retirement system has received an excess employee contribution, NPERS shall return the excess employee contribution to the employer, and the employer shall return the excess employee contribution to the employee."

Pending approval of the Governor, Title 303, NAC 18-003.01, was revised to further state, "…Adjustments due to excess employee contributions shall be made within two contractual or fiscal years of the date the excess contribution was received by NPERS. If more than two contractual or fiscal years have passed since the date the contribution was received, the excess contribution shall not be adjusted."

The APA requested a listing of all ineligible contributions forfeited to the Plans for the fiscal year. Because such forfeitures are not recorded in NPRIS separately from other adjustments, NPERS was unable to produce such a listing. NPERS was able to provide the APA with documentation for one member, who had contributed $75 to the School Plan during July 2004, July 2006, December 2008, and August 2011. In February 2012, it was determined the member was not eligible for Plan participation. Once determined to be ineligible, the member's account was adjusted to forfeit all contributions greater than two years old, totaling $50. Therefore, the member only received a refund of $25. The employer had also contributed $75 and was refunded only $25. The $100 not refunded to the employee and employer was forfeited to the Plan assets.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Lack of Statutory Authority and Rules and Regulations (Continued)

Neb. Rev. Stat. § 84-1503(2)(b) (Reissue 2008) requires the Board "[t]o determine the eligibility of an individual to be a member of the retirement system…" When an employer improperly withholds employee contributions and NPERS accepts those contributions but, after determining years later that they were ineligible, refuses to refund them in full, the member is, in essence, unfairly punished for the errors of both the employer and NPERS.

Without clear statutory approval, much less the applicable rules and regulations required under Neb. Rev. Stat. § 84-1503(2)(i), NPERS lacks the authority either to establish a materiality policy that denies members a full refund of their ineligible contributions or to retain for the Plans those same contributions.

> We recommend NPERS operate in accordance with its legal authority by refunding to both the employer and the members the full amounts of all ineligible contributions. Furthermore, we recommend NPERS develop rules and regulations, as required under Neb. Rev. Stat. § 84-1503(2)(i), for the adjustment of member accounts.

NPERS' Response: It is the agency's legal opinion that it has the ability through Nebraska statutory and regulatory law to return ineligible amounts contributed up to a one-year period for employers, and up to a two-year period for employees. The agency also asserts that it has the ability to set de minimus amount levels for transactions through an administrative board policy established by the Public Employees Retirement Board.

The agency has the authority to adjust contributions and promulgate rules and regulations establishing procedures for refunding contributions for defined benefit plans. See Neb. Rev. Stat. §§ 24-704.01, 79-904.01, 81-2019.01, and 84-1305.02. Based upon rules and regulations adopted by the agency on July 23, 1997, the following provisions are controlling under the agency's administrative legal authority:

003.02 If NPERS determines that a retirement system has received an excess employer contribution, NPERS shall credit the excess employer contribution against future employer contributions. <u>Adjustments due to excess employer contributions shall be made within one year of the date the excess contribution was received by NPERS. If more than one year has passed since the date the contribution was received, the excess contribution shall not be adjusted.</u>

Emphasis added. See Title 303 NAC 18-003.

In addition, claims against the agency made by an employee member for the return of an excess contribution are barred by a two-year statute of limitation. See Neb. Rev. Stat. § 79-977.01 providing as follows, "[e]very claim and demand under the School Employees Retirement Act

COMMENTS AND RECOMMENDATIONS
(Continued)

4. <u>Lack of Statutory Authority and Rules and Regulations</u> (Continued)

NPERS' Response, Concluded:
and against the retirement system or the retirement board shall be forever barred unless the action is brought within two years of the time at which the claim accrued." Also see Neb. Rev. Stat. §§ 24-713.01 (Judges Plan) and 81-2037 (Patrol Plan), and Title 303 NAC 18-010.01.

The Public Employees Retirement Board, Policy Number 9 on Materiality, last revised February 2011, sets de minimus transaction amounts for the agency, and provides as follows:

5.(f) Ineligible contributions. If the combined total calculation of ineligible contributions for employee and employer are less than $50 for the time period to be refunded (no more than 2 years for employee and 1 year for employer), no refund will be made.

The agency has a fiduciary obligation to the plan members to use the members' limited resources wisely and efficiently. The amount of staff time utilized in ascertaining and returning smaller ineligible amounts may result in greater costs incurred to the plan than is reflected in the amount returned. The need for materiality amounts within the agency has been apparent in the definition of tolerance levels within our NPRIS system for various edits, parameters, etc.

Laws 2012, LB 916, § 43, (effective on April 7, 2012) adopted additional language permitting the agency to promulgate rules and regulations under Neb. Rev. Stat. 84-1503(2)(i) thereby establishing ". . . materiality and de minimus amounts for agency transactions, adjustments, and inactive account closures . ." Currently, the agency is in the process of drafting rules and regulations to comply with the additional provisions of this recently adopted law.

APA Response: NPERS has a fiduciary duty to act solely in the interest of the members. Moreover, Neb. Rev. Stat. § 84-1503.02(2) requires that any actions undertaken by NPERS to defray expenses must occur within the limitations of existing law. The entire point of this comment is that – aside from Neb. Rev. Stat. § 79-977.01 (Reissue 2008), which merely bars any action against NPERS unless brought within two years – no such law or regulation existed during the period tested.

NPERS references Neb. Rev. Stat. §§ 24-704.01 (Reissue 2008), 79-904.01 (Supp. 2011), 81-2019.01 (2008), and 84-1305.02 (2008) as its authority to adopt rules and regulations establishing procedures for refunding contributions to defined benefit plans. In fact, those statutes require NPERS to adopt such rules. Title 303 NAC 18-003, which NPERS points to as having been adopted under those statutes, pertains to the management only of excess employer contributions – not to excess employee contributions, which is the focus of this audit comment.

Instead of properly promulgated rules and regulations – which, in addition to being required under the statutes indicated by NPERS, have the effect of statutory law – NPERS relies upon internal policies for its authority to establish de minimus transaction amounts. Given the expressly mandatory nature of the statutes to which NPERS points, such an internal policy is simply inadequate.

4. Lack of Statutory Authority and Rules and Regulations (Concluded)

APA Response, Concluded:
NPERS points out also that LB 916 (2012), which became effective on April 7, 2012, was passed during this most recent legislative session to permit the adoption of rules and regulations for establishing de minimus transaction amounts. This appears to be nothing less than a tacit acknowledgment on the part of NPERS of not only the inability of the previously cited statutes to support the creation of such rules and regulations but also the insufficiency of the internal policy under which NPERS has long been operating.

More importantly, while the APA commends NPERS for seeking a legislative remedy to this troublesome issue, neither the provisions of LB 916 nor any resulting rules and regulations drafted by NPERS can be applied retroactively. Thus, the passage of that bill has no relevance to NPERS' activity during the period tested.

5. Lack of Written Procedures and Proper Controls

A good internal control plan requires written policies and procedures to ensure staff is knowledgeable of job requirements and to ensure member benefit calculations and account balances and transactions are accurate, consistent, and properly reviewed.

Member Account Changes

Each member of NPERS has an account within the Nebraska Public Retirement Information System (NPRIS). When changes were made to member accounts, for instance, to adjust interest earned or process a benefit payment, NPRIS required certain processes to be completed within the system including a secondary review to be performed by an individual separate from the individual who initiated the transaction. However, NPRIS only required screens to be opened in order for the fields to be recorded as completed and not all fields contained in the system were required to be completed prior to processing changes.

As reported during the previous audit, NPERS did not have written procedures to ensure staff performing changes reviewed proper and consistent documentation and there were no written procedures for the secondary review to ensure all staff reviewed changes accurately and consistently.

During testing we noted two of ten School Plan members' benefit payments did not have all fields completed to document the member was eligible to receive their retirement benefit prior to the benefit processing. Additionally, two of four State Patrol Plan members' benefit payments did not have all secondary review fields completed to document the benefit calculation was reviewed.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. Lack of Written Procedures and Proper Controls (Continued)

We also noted one of ten School Plan members tested had an additional 0.6589 years of service credit improperly calculated because the NPERS' staff person did not obtain proper documentation to determine the member was not eligible for partial service credit. The monthly benefit paid by NPERS was $407, however, the member should have only received $384, an excess of $23 each month. The member was paid improperly from September 2010 through January 2012, when brought to NPERS' attention by the APA, causing a total overpayment of $391. NPERS subsequently adjusted the monthly benefit amount.

Without procedures to ensure staff review and document the proper information, there is an increased risk member transactions will not be recorded properly. A similar finding was noted in the last two audit reports.

Savings and Service Annuity Procedures

Neb. Rev. Stat. § 79-933(1) (Reissue 2008) states, "a member or emeritus member shall receive a school retirement allowance which shall consist of the sum of: (a) A savings annuity which shall be the actuarial equivalent, as determined by the retirement board, of the member's accumulated contributions at the time of his or her retirement or, in the case of an emeritus member, the savings annuity fixed by the retirement board at the time of his or her original retirement; and (b) a service annuity to be paid by the State of Nebraska."

A member is either eligible for a savings and service annuity as outlined in the statute above or a formula annuity as stated in Neb. Rev. Stat. § 79-934 (Reissue 2008), whichever is greater. However, as reported during the previous audit, NPERS did not have documented policies and procedures for the determination and calculation of the savings and service annuity. The calculation had to be performed manually as NPRIS did not calculate savings and service annuities properly. NPERS did not have written guidelines as to when a savings and service annuity calculation was to be performed and what rates were to be used. Without clear policies and procedures there is an increased risk a member will not have the savings and service annuity calculated or calculated properly to ensure they receive the greatest benefit at retirement.

> We recommend NPERS develop written policies and procedures to ensure changes and reviews are performed consistently and properly. Additionally, we recommend NPERS develop written procedures to ensure the savings and service annuities are calculated properly for all members that qualify.

NPERS' Response: Our software includes processes to document when a member is eligible to receive a retirement benefit prior to processing. There is an extra field/box that is included in the software that we do not use. The field was part of the original software we purchased. We have other tests we use to ensure someone is benefit eligible. No member benefit has been affected by this. It would use valuable staff time and programming resources to remove the field, which at some point may be utilized for another purpose.

COMMENTS AND RECOMMENDATIONS
(Continued)

5. Lack of Written Procedures and Proper Controls (Concluded)

APA Response: We recommend NPERS establish written procedures for which fields and documentation is to be reviewed and completed during benefit processing to ensure consistency of staff reviews.

NPERS' Response: A small number of school members (approximately 2%) qualify for the savings and service annuity benefit per statute. NPERS has procedures we follow in calculating their benefit. No savings and service annuity benefits were found to be calculated incorrectly; however we will document the procedures in writing.

APA Response: NPERS does not have written procedures for when or whom a savings and service annuity should be calculated for. We recommend NPERS implement written policies and procedures to ensure all benefits are properly calculated in accordance with State statute.

6. Lack of Adequate Procedures Regarding Required Minimum Distributions

26 USC § 401(a) and Neb. Rev. Stat. § 79-932 (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.

NPERS ran a report in NPRIS, which showed members age 65 and older. From this report, NPERS procedures were to create a listing of members age 70 and older who required further follow up to ensure Federal requirements were met. We selected five school members from the NPRIS report to test and noted three members did not receive required minimum distribution (RMD) payments in accordance with § 401(a) and Neb. Rev. Stat. § 79-932. Furthermore, these three members were not noted on NPERS' listing of members age 70 and older requiring further review.

- One member was not paid an RMD for calendar years 2009 and 2010 in the amounts of $676 and $674 respectively. NPERS attempted to contact the member in April 2010 and July 2010, however, the required payments had not been made.
- One member was not paid an RMD for calendar year 2010 in the amount of $514. NPERS had not contacted the member to notify them of the RMD required to be paid by April 1, 2011.
- One member was not paid an RMD for calendar year 2010 in the amount of $359. NPERS first attempted contact with the member regarding the RMD in September 2011 via a phone call. The member died in November 2011 and the account balance had not yet been paid.

COMMENTS AND RECOMMENDATIONS
(Continued)

6. Lack of Adequate Procedures Regarding Required Minimum Distributions (Concluded)

A similar finding was noted in the prior year audit report.

Without adequate procedures to ensure distributions are made timely, there is an increased risk payments will not be made in accordance with Federal and State regulations.

> We recommend NPERS establish procedures to ensure payments are made timely in accordance with Federal and State regulations.

NPERS' Response: NPERS continues to improve our process for reviewing and paying required minimum distributions. School, Judges and Patrol members seldom need a required minimum distribution, because the majority of members receive monthly benefits. Members who have not taken a benefit by age 65 appear on a list and are notified that they will need to apply for benefits or take a minimum distribution at age 70.5. A benefit estimate is included in the notification. Periodic contacts are made with the member. NPERS will draft written procedures of our process.

7. Shared System Access

Nebraska Information Technology Commission (NITC) Standards and Guidelines, Information Security Policy 8-101, Section 7, Access Control states, in part, "All individuals requiring special privileges (programmers, database administrators, network and security administrators, etc.) will have a unique privileged account (UserID) so activities can be traced to the responsible user."

We noted one system ID which was shared between two NPERS' developers that allowed for insert/update/delete access to the production database. After this was brought to NPERS' attention, the ID was subsequently removed in February 2012.

Inadequate authentication procedures may lead to financial loss and operational damage through unintentional or deliberate unauthorized access, alteration, and use of information resources. Shared IDs make it difficult to identify the individual who accessed the computer system.

> We recommend NPERS eliminate shared IDs when feasible to ensure individuals have unique IDs to make users accountable for changes made to the system.

NPERS' Response: This particular shared ID was created and used for testing by the OCIO developers. It is no longer being used and has been removed.

COMMENTS AND RECOMMENDATIONS
(Continued)

8. Inconsistent Plan Documents

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

As noted in the previous three audit reports, there are plan documents (Rules and Regulations, Plan Handbooks, Employer Manuals, and Forms) that were not consistent as follows:

- NPERS did not consider school district contribution remittances to be late if submitted by the 10th of the month following the paycheck date. However, the following plan documents were inconsistent as follows:

School Employer Manual	The Wages and Contributions Report and payment must be submitted to NPERS no later than the 10th day of each month.
Wage and Contributions Report	The report must be postmarked within 10 days following your pay period end date.
Title 303 NAC 2-001.01 & 2-001.03	The envolope containing the report and remittances must be postmarked by the 10th of the following month, i.e. July report and remittances must be postmarked by August 10th.
Proposed Title 303 NAC 2-002.01 & 2-002.03 *	Remittances and reports must be submitted to NPERS no later than ten (10) calendar days following the end of the month for which remittances are due.

* NPERS has proposed Rules and Regulations pending approval with the Secretary of State that do not correct the inconsistencies as noted.

- NPERS had Draft Rules and Regulations, which had been approved by the Nebraska Public Employees Retirement Board in 2002 but had not been approved by the Secretary of State. The Draft Rules and Regulations had not been approved by the Secretary of State as of the audit. During our review we noted several inconsistencies with the State Patrol and Judges plan documents as noted:

Draft Title 303 NAC 4-004.03(a)	The date of distribution of a refund to a member in the Judges or Patrol Plan shall not occur earlier than sixty (60) days after the member's termination date or three (3) working days after the receipt of an application for refund, whichever date is later.
State Patrol Handbook	The member's payment will be processed approximately 60 days after their termination date or two weeks after receipt of their application, whichever is later.

COMMENTS AND RECOMMENDATIONS
(Continued)

8. Inconsistent Plan Documents (Concluded)

Judge's Handbook	The member is eligible to receive a refund approximately 60 days after their last working day or receipt of their completed application, whichever is later.
Proposed Title 303 NAC 4-004.04(a)	Distribution of a refund or termination benefit to a member shall not occur earlier than sixty (60) calendar days after the member ceases employment or no sooner than twenty (20) business days after NPERS receives a completed application, whichever is later.

- We also noted four State statutes for the Plans that required corresponding Rules and Regulations to be established by the Nebraska Public Employees Retirement Board for which there were none. The statutes were Neb. Rev. Stat. § 79-907 (Reissue 2008), Neb. Rev. Stat. § 79-933.01 (Reissue 2008), Neb. Rev. Stat. § 24-710.05 (Reissue 2008), and Neb. Rev. Stat. § 81-2031.03 (Reissue 2008).

Without consistent policies and information provided to members there is an increased risk benefit payments will not be proper. Furthermore, there is an increased risk members or employers may have a misunderstanding of NPERS' policies and procedures on payment of refunds or employer report and remittance requirements.

> We recommend NPERS ensure Rules and Regulations, Plan Handbooks, Employer Manuals, and Forms are consistent for the Plans. We further recommend NPERS ensure Rules and Regulations approved by the Nebraska Public Employees Retirement Board are properly submitted and approved by the Secretary of State in a timely manner and in compliance with State statute.

NPERS' Response: The agency continuously updates plan documents and provides access to them on the agency's website. Printed plan booklets are updated periodically on a rotating basis. Members and employers are provided with updated inserts for plan booklets so all information is current. New statutory or regulatory changes are communicated to members in quarterly newsletters.

In 2011, NPERS revised twenty-two agency's rules and regulations under the Administrative Procedure Act, Neb. Rev. Stat. §§ 84-901, et seq. Chapters 1 and 12 of Title 303, were approved by the Governor and became effective on January 9, 2012. As soon as the remaining twenty chapter revisions are approved and become effective, the agency will make additional revisions to its member plan books, employer resource materials, and online information to reflect these new administrative law changes.

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

INDEPENDENT AUDITOR'S 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) – School Employees, Judges, and State Patrol Retirement Plans as of and for the year ended June 30, 2011, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plans' internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans are intended to present the financial position and changes in financial position of only that portion of the State that is attributable to the transactions of the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans. They do not purport to, and do not, present fairly the financial position of the State of Nebraska as of June 30, 2011, 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 – School Employees, Judges, and State Patrol Retirement Plans, as of June 30, 2011, 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 April 12, 2012, on our consideration of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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's 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 and Other Contributing Entities are not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. The Schedules of Funding Progress and Schedules of Contributions From Employers and Other Contributing Entities have 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' basic financial statements. The accompanying supplementary schedule of Service Efforts and Accomplishments and related graphs are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Signed Original on File

April 12, 2012

Pat Reding, CPA, CFE
Assistant Deputy Auditor

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
STATEMENTS OF PLAN NET ASSETS
AS OF JUNE 30, 2011

	School Employees	Judges	State Patrol
ASSETS			
Cash in State Treasury	$ 2,286,045	$ 82,268	$ 312,168
Deposits with Vendors	9,091	94	94
Receivables:			
Contributions	47,863,963	406,740	1,478,683
Interest and Dividend Income	13,209,422	227,790	498,435
Other Investment Receivables (Note 4)	484,783,160	8,353,252	18,358,643
Total Receivables	545,856,545	8,987,782	20,335,761
Investments, at fair value (Note 4):			
U.S. Treasury Notes and Bonds	88,020,346	1,516,670	3,333,313
Government Agency Securities	28,927,123	498,440	1,095,465
Corporate Bonds	524,613,130	9,039,558	19,866,996
International Bonds	61,356,276	1,057,225	2,323,550
Asset Backed Securities	77,962,859	1,343,370	2,952,438
Guaranteed Investment Contracts	-	-	599,988
Short Term Investments	131,881,391	2,272,434	5,311,172
Commingled Funds	4,207,862,960	72,505,278	161,501,880
Mortgages	450,373,911	7,760,344	17,055,665
Municipal Bonds	35,707,892	615,279	1,352,251
Private Equity Funds	210,562,247	3,628,178	7,973,951
Equity Securities	1,268,923,127	21,864,691	48,053,870
Options	(1,087,441)	(18,738)	(41,181)
Private Real Estate Funds	197,574,876	3,404,394	7,482,122
Total Investments	7,282,678,697	125,487,123	278,861,480
Invested Securities Lending Collateral (Note 4)	256,814,108	4,425,139	9,807,516
Capital Assets (Note 10):			
Equipment	12,409,788	2,104,371	2,059,963
Less: Accumulated Depreciation	(11,343,368)	(2,089,763)	(2,045,355)
Total Capital Assets	1,066,420	14,608	14,608
TOTAL ASSETS	8,088,710,906	138,997,014	309,331,627
LIABILITIES			
Compensated Absences (Note 5 and Note 8)	193,039	3,110	2,720
Accounts Payable and Accrued Liabilities	5,032,818	87,848	211,488
Obligations under Securities Lending (Note 4)	256,814,108	4,425,139	9,807,516
Other Investment Payables (Note 4)	558,797,430	9,628,584	21,163,153
Contributions for Omaha Public Schools (Note 6)	3,918,679	-	-
TOTAL LIABILITIES	824,756,074	14,144,681	31,184,877
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A schedule of funding progress for each plan is presented on page 46.)	$ 7,263,954,832	$ 124,852,333	$ 278,146,750

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

NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL RETIREMENT PLANS
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	School Employees	Judges	State Patrol
ADDITIONS:			
Contributions:			
Member (Note 9)	$ 137,301,891	$ 1,378,654	$ 4,476,933
Employer	135,328,339	-	4,478,063
Court Fees	-	3,507,417	-
State	26,793,771	72,244	1,478,683
Total Contributions	299,424,001	4,958,315	10,433,679
Investment Income:			
Net appreciation (depreciation) in fair value of investments	1,287,025,866	22,162,833	49,417,241
Interest & Dividends	113,544,104	1,955,200	4,434,834
Securities Lending Income	2,272,101	39,150	86,422
Total Investment Income	1,402,842,071	24,157,183	53,938,497
Investment Expenses	(18,996,034)	(327,206)	(733,662)
Securities Lending Expenses	(738,482)	(12,725)	(28,137)
Net Investment Income	1,383,107,555	23,817,252	53,176,698
Other Additions	29,235	31	8,850
Total Additions	1,682,560,791	28,775,598	63,619,227
DEDUCTIONS:			
Benefits	339,042,978	5,801,195	14,139,558
Refunds of Contributions	10,613,473	-	812,426
Administrative Expense	4,005,120	73,981	95,131
Other Deductions (Note 6)	5,346,035	-	-
Total Deductions	359,007,606	5,875,176	15,047,115
Net Increase (Decrease)	1,323,553,185	22,900,422	48,572,112
Net assets held in trust for pension benefits:			
Beginning of year	5,940,401,647	101,951,911	229,574,638
End of year	$ 7,263,954,832	$ 124,852,333	$ 278,146,750

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

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2011

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying basic financial statements of the Nebraska Public Employees Retirement Systems (NPERS) – School Employees, Judges, and State Patrol 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 State Employees and County Employees Retirement Plans for the calendar year ended December 31, 2010, and the Deferred Compensation Plan for the calendar year ended December 31, 2009.

The financial statements reflect only the School Employees, Judges, and State Patrol 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 all liabilities associated with the operation of these funds are included on the Statements of Plan Net Assets.

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

The School Employees, Judges, and State Patrol 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 and is under the control of the State Treasurer or other administrative bodies as determined by law. This classification includes bank accounts and other short-term investments. These short-term investments may have original maturities (remaining time to maturity at acquisition) greater than three months however; cash is available and is considered cash for reporting purposes. Banks pledge collateral, as required by law, to guarantee State funds held in time and demand deposits.

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 balance of the three 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.

1. Summary of Significant Accounting Policies (Concluded)

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at June 30, 2011, the date of the last actuarial valuation:

	School Employees	Judges	State Patrol
Retirees and beneficiaries receiving benefits	17,814	160	402
Terminated plan members entitled to but not yet receiving benefits	20,326	7	17
Active plan members	39,886	146	433
Total	78,026	313	852

The Board was created in 1971 to administer the Nebraska retirement plans. The School Employees, Judges, and State Patrol plans have been created in accordance with Internal Revenue Code Sections 401(a) and 414(h). Participants should refer to Neb. Rev. Stat. §§ 79-901 through 79-977.03 for the School Employees Retirement Plan, Neb. Rev. Stat. §§ 24-701 through 24-714 for the Judges Retirement Plan and Neb. Rev. Stat. §§ 81-2014 through 81-2041 for the State Patrol Retirement Plan. Benefit and contribution provisions are established by State law and may be amended only by the Nebraska Legislature.

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

School Employees Retirement

Plan Description. The School Employees Retirement Plan is a cost-sharing multiple-employer defined benefit pension plan. The Legislature in 1945 enacted the law establishing a retirement plan for school employees of the State. During fiscal year 2011, there were 276 participating school districts. These were the districts that had contributions during the fiscal year. All regular public school employees in Nebraska, other than those who have their own retirement plan (Class V school districts, Nebraska State Colleges, University of Nebraska, Nebraska Community Colleges), are members of the plan.

Normal retirement is at age 65. The monthly benefit is equal to the greater of: 1) The sum of a savings annuity which is the actuarial equivalent of the member's accumulated contributions and a service annuity equal to $3.50 per year of service, or 2) The average of the three 12-month periods of service as a school employee in

2. Plan Descriptions and Contribution Information (Continued)

which such compensation was the greatest, multiplied by total years of creditable service, multiplied by a formula factor set by statute, and an actuarial factor based on age. The calculation varies with early retirement. Employees' benefits are vested after five years of plan participation, or when termination occurs at age 65 or later.

Contributions. The State's contribution is based on an annual actuarial valuation. In addition, the State contributes an amount equal to 1 percent of the compensation of all members. The employees' contribution was equal to 8.28 percent. The school districts' (employer) contribution is 101 percent of the employees' contribution.

Judges Retirement

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

Retirement is age 65 with benefits calculated using the compensation for the three 12-month periods of service as a judge in which compensation was the greatest, or the average monthly compensation, multiplied by the total years of service and the formula factor of 3.5 percent; subject to a maximum of 70 percent of the final average salary. The calculation varies with early retirement. Benefits vest when the judge takes office.

Contributions. The plan is funded by members' contributions, a portion of the court fees, and the State's contributions. A six dollar fee for each case is collected from District and County courts, Juvenile courts, Workers' Compensation Court, Supreme Court, and the Court of Appeals, plus a 10 percent charge on certain fees collected in the County Courts. The State's contribution is based on an annual actuarial valuation. Each new member after July 1, 2004, and those active members that elected within 90 days of July 1, 2004, contribute 9 percent of their monthly salary until the maximum benefit has been earned. After the maximum benefit has been earned, such member contributes 5 percent of their monthly salary for the remainder of his or her active service. All other members contribute 7 percent of their monthly salary until the maximum benefit has been earned. After the maximum benefit had been earned, such member contributes 1 percent of their monthly salary for the remainder of his or her active service.

2. Plan Descriptions and Contribution Information (Concluded)

State Patrol Retirement

Plan Description. The State Patrol Retirement Plan is a single-employer defined benefit pension plan, which was created in 1947 for officers of the patrol. The benefits are based on a percentage of the final average salary multiplied by years of service, not to exceed 75 percent of the final average salary. To receive maximum benefits, officers are required to have 25 years of service and be at least 50 years old. Normal benefits are calculated using the average monthly salary for the three 12-month periods of service in which compensation was the greatest multiplied by years of service and the formula factor of 3 percent. Calculation will vary with early retirement. Benefits vest after 10 years of service.

Contributions. Members are required to contribute 16 percent of their annual pay, plus, for a State Patrol officer employed on or before January 4, 1979, 16 percent of pay received at termination for unused sick leave and vacation leave. The State Patrol's (employer) contribution is 16 percent of the employees' annual pay. The State's contribution is based on an annual actuarial valuation.

Deferred Retirement Option Plan (DROP). Neb. Rev. Stat. § 81-2041 (Reissue 2008) established the Patrol DROP effective September 1, 2008. The DROP is a voluntary deferred retirement plan that a member can enter between the ages of 50 and 60, with 25 years of service. If the member chooses to participate in DROP, the member is deemed to have retired; however, the member continues in active employment for up to a five-year period with no retirement contributions withheld from their paychecks. When the member enters DROP the individual's monthly benefit is calculated and paid into an IRC § 457 Deferred Compensation Plan (DCP), held by the record keeper, Ameritas. After the member retires (60 years of age) or has been in DROP for five years, whichever occurs first, the member then has the option to receive a lump sum payment and/or rollover the funds in the DCP account to another qualified plan. Thereafter, future retirement benefit payments are made directly to the member.

3. Funded Status and Funding Progress

The funded status of each plan as of June 30, 2011, the most recent actuarial valuation date, is as follows:

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. **Funded Status and Funding Progress** (Concluded)

	(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
School	$ 7,267,497,259	$ 9,039,744,995	$ 1,772,247,736	80.4%	$ 1,590,225,983	111.4%
Judges	125,190,720	128,264,617	3,073,897	98.0%	18,182,238	16.9%
State Patrol	279,192,669	339,554,456	60,361,787	82.2%	26,195,473	230.4%

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.

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

	School Employees	Judges	State Patrol
Valuation date	June 30, 2011	June 30, 2011	June 30, 2011
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level Dollar Closed	Level Dollar Closed	Level Dollar Closed
Remaining amortization period	27 Years	30 Years	28 Years
Asset valuation method	5 year smoothing	5 year smoothing	5 year smoothing
Actuarial assumptions:			
Investment rate of return*	8.0%	8.0%	8.0%
Projected salary increases*	4.5% to 7.46%	4.5%	4.5% to 9.0%
Cost-Of-Living Adjustments (COLA)	2.5% with a floor benefit equal to 75% purchasing power of original benefit	2.5% with a floor benefit equal to 75% purchasing power of original benefit	2.5% with a floor benefit equal to 60% purchasing power of original benefit

* 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 Statements 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 2009) 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 School Employees, Judges, and State Patrol Retirement Plans at June 30, 2011, are presented below. All investments are presented by investment type and debt securities are presented with effective duration presented in years.

School Employees, Judges, and State Patrol Retirement Plan Investments at June 30, 2011

	Fair Value	Effective Duration
Debt Securities		
U.S. Treasury Notes and Bonds	$ 92,870,329	7.07
Government Agency Securities	30,521,028	4.56
Guaranteed Investment Contracts	599,988	2.73
Corporate Bonds	553,519,684	4.59
International Bonds	64,737,051	5.61
Asset Backed Securities	82,258,667	3.22
Short Term Investments	139,464,997	-
Commingled Funds	619,470,897	4.29
Mortgages	475,189,920	6.35
Municipal Bonds	37,675,422	10.66
	2,096,307,983	
Other Investments		
Private Equity Securities	222,164,376	
Equity Securities	1,338,841,688	
Commingled Funds	3,822,399,221	
Options	(1,147,360)	
Private Real Estate Funds Trust	208,461,392	
Total Investments	7,687,027,300	
Invested Securities Lending Collateral	271,046,763	
Total	$ 7,958,074,063	

4. **Investments** (Continued)

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the 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.

(Continued on Next Page)

NOTES TO FINANCIAL STATEMENTS
(Continued)

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. High yield corporate fixed income securities with a minimum rating of BBB- and below are permitted to be held as long as the average credit quality of the account is maintained as investment grade. NPERS' rated debt investments as of June 30, 2011, were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

School Employees, Judges, and State Patrol Retirement Plan Investments
at June 30, 2011

		Quality Ratings						
	Fair Value	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**Unrated**
Asset Backed Securities	$ 82,258,667	$ 64,304,627	$ 2,979,796	$ 7,533,560	$ 3,786,990	$ -	$ 287,999	$ 3,365,695
Mortgages	475,189,920	343,129,506	6,782,606	19,531,590	6,032,306	4,668,890	9,151,335	85,893,687
International Bonds	64,737,051	26,896,075	3,311,064	7,115,923	18,466,613	7,005,391	120,455	1,821,530
Corporate Bonds	553,519,684	40,295,855	46,912,159	155,001,426	135,700,478	91,755,721	64,646,284	19,207,761
Government Agency Securities	30,521,028	22,692,283	1,860,120	2,390,844	-	2,226,062	498,943	852,776
Municipal Bonds	37,675,422	8,628,266	10,897,303	16,859,172	1,290,681	-	-	-
Short Term Investments	139,464,997	-	-	-	-	-	-	139,464,997
Commingled Funds	619,470,897	-	-	-	-	-	-	619,470,897

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

At June 30, 2011, NPERS had no debt security investments with more than 5 percent of total investments.

4. Investments (Continued)

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. NPERS' exposure to foreign currency risk is presented on the following table.

School Employees, Judges, and State Patrol Retirement Plan
Foreign Currency at June 30, 2011

	Asset Backed Securities	Short Term Investments	Equity Securities	International Bonds	Mortgages	Corporate Bonds
Argentine Peso	$ -	$ 4,437	$ -	$ -	$ -	$ -
Australian Dollar	-	229,951	12,884,729	274,846	-	1,252,869
Brazilian Real	-	634,491	2,838,359	1,433,694	-	837,699
Canadian Dollar	-	8,069	15,584,810	26,265,756	-	-
Chilean Peso	-	-	-	-	-	486,420
Colombian Peso	-	-	-	-	-	566,228
Czech Koruna	-	241,784	942,799	-	-	-
Danish Krone	-	21,667	4,386,364	-	-	-
Euro Currency	951,188	1,891,861	252,189,073	9,668,641	5,214,166	6,980,792
Hong Kong Dollar	-	375,009	36,615,112	-	-	-
Hungarian Forint	-	2	-	-	-	-
Indian Rupee	-	-	-	418,018	-	1,080,017
Indonesian Rupiah	-	-	1,132,363	-	-	1,442,644
Israeli Shekel	-	66,637	-	-	-	-
Japanese Yen	-	762,285	91,822,388	-	-	-
Malaysian Ringgit	-	75,665	2,473,440	-	-	-
Mexican Peso	-	346,866	3,660,490	2,278,921	-	355,032
New Zealand Dollar	-	23	-	1,023,184	-	-
Norwegian Krone	-	4,104	6,134,854	-	-	-
Philippine Peso	-	30,926	260,263	1,000,622	-	-
Polish Zloty	-	92	4,785,303	-	-	-
Pound Sterling	-	373,473	110,181,593	-	358,353	1,414,596
Singapore Dollar	-	45,318	7,580,079	-	-	2,196,636
South African Rand	-	99	5,726,034	-	-	-
South Korean Won	-	95,811	27,991,665	-	-	1,928,888
Swedish Krona	-	93	17,432,936	-	-	-
Swiss Franc	-	111,855	61,773,672	-	-	-
Thailand Baht	-	140,727	7,448,106	-	-	-
Total	$ 951,188	$ 5,461,245	$ 673,844,432	$ 42,363,682	$ 5,572,519	$ 18,541,821

4. Investments (Continued)

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 collateral in the forms of 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. Securities on loan at year end consisted of United States government obligations, equity securities, corporate bonds, and non-US equity securities. At year end, the State had no credit risk exposure to borrowers because the amounts the State owes the borrowers exceed the amounts the borrowers owe the State. The collateral securities cannot be pledged or sold by the State unless the borrower defaults. There are no restrictions on the amount of securities that can be loaned, and there were no losses from borrower default during the year.

Either the State or the borrowers can terminate all securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had average durations from 31 to 36 days. 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 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. All changes in fair value of derivatives are reflected in Investment Income and the fair value of derivatives at June 30, 2011, is reflected in Investments. The fair value balances and notional amounts of investment derivative instruments outstanding at June 30, 2011, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows:

4. **Investments** (Continued)

DERIVATIVE INVESTMENTS AT JUNE 30, 2011

Derivative	Change in Fair Value	Fair Value	Notional
Credit Default Swaps	$ 650,790	$ 1,066,174	$ 53,324,134
Fixed Income Futures	5,547,786	-	908,941,615
Fixed Income Options	2,635,049	(1,147,360)	(250,117,210)
Futures Options	101,301	-	-
FX Forwards	(5,444,384)	94,595	146,850,939
Fixed Interest Rate Swaps	(3,407,197)	(417,138)	100,923,581
Rights	449,117	-	-
Warrants	1,229	1,229	4,916

The change in fair value denotes the net realized and unrealized gains and losses recognized during the period. The fair value of the derivative instruments at June 30, 2011, denotes the market value, with the exception of FX Forwards, which denotes the net realized and unrealized gains and losses recognized during the period. Furthermore, the Notional amount for Futures and Options was calculated as contract size times the number of contracts.

The Plans are exposed to credit risk on derivative instruments that are in asset positions. To minimize its exposure to loss related to credit risk, it is the Nebraska Investment Council's policy to require counterparty collateral posting provisions in its non-exchange-traded derivative instruments. These terms require full collateralization of the fair value of derivative instruments in asset positions. Collateral posted is to be in the form of U.S. Treasury securities held by a third-party custodian. The Plans have never failed to access collateral when required.

The aggregate fair value of derivative instruments in asset positions at June 30, 2011, was $1,735,925. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. There is no collateral held or liabilities included in netting arrangements with those counterparties; therefore, the net exposure to credit risk is $1,735,925.

Although the Plans execute derivative instruments with various counterparties, there is approximately 87 percent of the net exposure to credit risk, held with five counterparties. The counterparties are rated A or AA.

The Plans are exposed to interest rate risk on its interest rate swaps. Interest rate swaps are agreements between two counterparties to exchange future cash flows. These are generally fixed versus variable flows, and can be either received or paid. These swaps are used to adjust interest rate and yield curve exposure and substitute for physical securities. Long swap positions (receive fixed) increase exposure to long-term interest

4. Investments (Continued)

rates; short positions (pay fixed) decrease exposure. Counterparty risk is limited to monthly exchanged or netted cash flows. All of the Plans interest rate swaps were fixed with a LIBOR (London Interbank Offered Rate) or SIFMA (Securities Industry and Financial Markets Association) reference rate.

Foreign currency risk for derivative instruments at June 30, 2011, are as follows:

DERIVATIVES FOREIGN CURRENCY AT JUNE 30, 2011

Currency	Swaps	Forward Contracts
Australian Dollar	$ -	$ 110,570
Brazilian Real	584,866	(9,850)
Canadian Dollar	-	(117,535)
Euro Currency	(177,402)	(112,113)
Japanese Yen	-	(174,644)
Mexican Peso	207,345	263,812
Norwegian Krone	-	(88,021)
Pound Sterling	-	67,205
Swiss Franc	-	782
Yuan Renminbi	-	154,389
Total	$ 614,809	$ 94,595

Synthetic Guaranteed Investment Contracts (SGICs). In the State Patrol Plan, DROP members are eligible to participate in SGICs. The contracts provided an average crediting rate of 3.87 percent during fiscal year 2011. The fair value of these contracts is $550,746, and the contract value is $529,483.

SGIC Components	Fair Value
Underlying Investments	$ 550,746
Wrap Contract	-
Total	$ 550,746

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. **Investments** (Concluded)

The effective duration and credit rating for the investments underlying the SGICs are presented below. There was no foreign currency risk for the underlying investments.

	Effective Duration	Fair Value	Investments Underlying SGICs Quality Ratings at June 30, 2011					
			AAA	AA	A	BBB	BB	Unrated
Asset Backed Securities	2.01	$ 47,196	$ 45,253	$ 117	$ 1,682	$ 144	$ -	$ -
Corporate Bonds	2.60	253,159	11,952	54,572	122,215	61,819	-	2,601
Government Agency Securities	2.77	43,400	43,400	-	-	-	-	-
International Bonds	1.92	6,353	2,886	-	3,467	-	-	-
Mortgages	2.55	154,060	148,478	1,127	3,427	-	-	1,028
Short Term Investments	-	9,725	-	-	-	-	-	9,725
US Treasury Notes	3.28	36,853	36,853	-	-	-	-	-
		$ 550,746						

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 had been recorded as of June 30, 2011, but the security had not settled.

5. Compensated Absences

The liability for the vested portion of compensated absences for each Plan at June 30, 2011, is as follows:

	School Employees	Judges	State Patrol
Annual Leave	$ 108,059	$ 1,741	$ 1,523
Sick Leave	84,980	1,369	1,197
Compensatory Leave	-	-	-
	$ 193,039	$ 3,110	$ 2,720

6. Payments to Omaha Public Schools

Neb. Rev. Stat. § 79-916(2) (Reissue 2008) requires an annual payment, for one percent of members' compensation, to be made to Omaha Public Schools (OPS) as a result of that school system having a separate retirement system. The amount is included on the Statement of Changes in Plan Assets in State Contributions additions and as Other Deductions for the July 2011 appropriation for the fiscal year ended June 30, 2011. Additionally, on the Statement of Plan Net Assets, the amount is included as a Contribution Receivable and a liability for contributions due to OPS as the appropriation was not received until July 2011.

The School Employee Retirement Plan (School Plan) also administers a service annuity to all retired Nebraska school district employees, paid by the State of Nebraska and computed per Neb. Rev. Stat. § 79-933 (Reissue 2008). For the OPS retirees, a calculated service annuity amount is transferred from the School Plan to the Omaha School Employees' Retirement System (Omaha), who then in turn makes the actual service annuity payments to the Omaha retirees. In accordance with Neb. Rev. Stat. § 79-916 (Reissue 2008), a separate Service Annuity Fund (Fund) was established for such payments and an actuarially computed amount was transferred to the Fund from other School Plan assets. The State may transfer additional amounts to the Fund as may be necessary to pay the normal cost and amortize any unfunded actuarial accrued liability. This Fund is to be used only to reimburse Omaha for its retirees' service annuity payments and related administrative expenses. The assets of the Fund ($9,375,303, consisting almost entirely of investments) are included in the Statement of Plan Net Assets at June 30, 2011. The service annuity payments to OPS are shown as Other Deductions in the Statement of Changes in Plan Net Assets.

Other deductions from the School Plan for the year ended June 30, 2011, were as follows:

	School Employees
Omaha 1% Appropriation	$ 3,918,679
Omaha Service Annuity Payments	1,427,356
Total Other Deductions	$ 5,346,035

7. Contingencies and Capital Lease Commitments

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

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

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)

8. Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2011, are summarized as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
School Employees:					
Compensated Absences	$ 190,106	$ 2,933	$ -	$ 193,039	$ 13,513
Capital Lease Obligations	257,327	-	257,327	-	-
Totals	$ 447,433	$ 2,933	$ 257,327	$ 193,039	$ 13,513
Judges:					
Compensated Absences	$ 2,825	$ 285	$ -	$ 3,110	$ 218
Capital Lease Obligations	75,315	-	75,315	-	-
Totals	$ 78,140	$ 285	$ 75,315	$ 3,110	$ 218
State Patrol:					
Compensated Absences	$ 2,933	$ -	$ 213	$ 2,720	$ 190
Capital Lease Obligations	72,462	-	72,462	-	-
Totals	$ 75,395	$ -	$ 72,675	$ 2,720	$ 190

9. School Employee Contributions

Member contributions for the School Plan exceeded employer contributions due to purchase of service payments totaling $2,699,193. Members can purchase service credit for reinstatement of service, out-of-state service, for a leave of absence, or within 12 months of retirement in accordance with Neb. Rev. Stat. § 79-921 (Reissue 2008), Neb. Rev. Stat. § 79-933.05 (Reissue 2008), Neb. Rev. Stat. § 79-933.06 (Reissue 2008), and Neb. Rev. Stat. § 79-933.08 (Reissue 2008).

10. Capital Assets

Capital asset activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
School Employees:				
Equipment	$ 12,041,987	$ 695,311	$ 327,510	$ 12,409,788
Less: Accumulated Depreciation	9,538,013	2,132,865	327,510	11,343,368
Total Capital Assets, Net	$ 2,503,974	$ (1,437,554)	$ -	$ 1,066,420
Judges:				
Equipment	$ 2,099,333	$ 9,525	$ 4,487	$ 2,104,371
Less: Accumulated Depreciation	2,033,013	61,237	4,487	2,089,763
Total Capital Assets, Net	$ 66,320	$ (51,712)	$ -	$ 14,608
State Patrol:				
Equipment	$ 2,054,925	$ 9,525	$ 4,487	$ 2,059,963
Less: Accumulated Depreciation	1,989,940	59,902	4,487	2,045,355
Total Capital Assets, Net	$ 64,985	$ (50,377)	$ -	$ 14,608

NOTES TO FINANCIAL STATEMENTS
(Continued)

11. Subsequent Events

State Patrol Additional Contributions. Neb. Rev. Stat. § 81-2017(3) (Supp. 2011) defines actuarially required contributions. The actuarially determined additional contribution requirement for the State Patrol Plan as of July 1, 2011, is $2,255,430.

State Patrol Contribution Rate Increase. Neb. Rev. Stat. § 81-2017(1) and (2) (Supp. 2011), increased the member contribution rate from 16% to 19% on July 1, 2011. The employer contribution also increased from 16% to 19%.

School Employee Plan Contribution Rate Increase. Neb. Rev. Stat. § 79-958 (Supp. 2011), increased the member contribution rate from 8.28% to 8.88% on September 1, 2011.

School Employee Additional Contributions. Neb. Rev. Stat. § 79-966.01 (Reissue 2008) defines actuarially required contributions. The actuarially determined additional contribution requirement for the School Employees Plan as of July 1, 2011, is $23,465,817. Furthermore, the additional contribution requirement for the Omaha Public Schools Retirement Plan as of July 1, 2011, is $1,030,017.

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

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF FUNDING PROGRESS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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
SCHOOL EMPLOYEES						
6/30/2011	$7,267,497,259	$ 9,039,744,995	$ 1,772,247,736	80.4%	$1,590,225,983	111.4%
6/30/2010	7,040,908,599	8,542,119,000	1,501,210,401	82.4%	1,543,930,532	97.2%
6/30/2009	7,007,581,825	8,092,339,318	1,084,757,493	86.6%	1,481,568,432	73.2%
6/30/2008	6,932,918,638	7,654,536,359	721,617,721	90.6%	1,389,124,819	51.9%
6/30/2007	6,396,336,863	7,070,308,583	673,971,720	90.5%	1,325,616,322	50.8%
6/30/2006	5,739,048,994	6,584,275,406	845,226,412	87.2%	1,247,684,378	67.7%
JUDGES						
6/30/2011	$ 125,190,720	$ 128,264,617	$ 3,073,897	98%	$ 18,182,238	16.9%
6/30/2010	121,406,463	121,309,682	(96,781)	100%	18,773,203	(0.5%)
6/30/2009	120,992,600	118,558,418	(2,434,182)	102%	18,373,339	(13.2%)
6/30/2008	119,961,758	114,251,081	(5,710,677)	105%	17,990,072	(31.7%)
6/30/2007	111,006,176	103,704,250	(7,301,926)	107%	17,003,921	(42.9%)
6/30/2006	100,565,893	101,438,239	872,346	99%	16,422,894	5.3%
STATE PATROL						
6/30/2011	$ 279,192,669	$ 339,554,456	$ 60,361,787	82.2%	$ 26,195,473	230.4%
6/30/2010	273,306,925	321,901,446	48,594,521	84.9%	26,765,816	181.6%
6/30/2009	274,119,906	305,291,065	31,171,159	89.8%	25,922,439	120.2%
6/30/2008	273,393,928	291,996,719	18,602,791	93.6%	26,979,643	69.0%
6/30/2007	254,662,819	265,846,597	11,183,778	95.8%	26,072,859	42.9%
6/30/2006	231,740,772	245,373,102	13,632,330	94.4%	24,057,960	56.7%

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

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF CONTRIBUTIONS FROM EMPLOYERS
AND OTHER CONTRIBUTING ENTITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

SCHOOL EMPLOYEES

Year Ended June 30	Annual Required Contribution (1) State (2)	Annual Required Contribution (1) School	Percentage Contributed
2011	$ 41,746,797 (3)	$ 135,328,339	89%
2010	21,380,352	128,845,427	100%
2009	20,620,548	110,028,942	100%
2008	15,832,941	105,977,554	100%
2007	15,314,413	107,478,977	100%
2006	30,644,522	102,161,426	100%

JUDGES

Year Ended June 30	Annual Required Contribution State	Annual Required Contribution Court Fees	Percentage Contributed
2011	$ 72,244	$ 3,507,417	100%
2010	72,244	3,543,047	100%
2009	72,244	3,419,091	100%
2008	72,244	3,280,964	100%
2007	64,354	3,143,599	100%
2006	72,169	3,048,084	100%

STATE PATROL

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2011	$ 7,173,344 (3)	83%
2010	6,260,122	100%
2009	5,384,789	100%
2008	4,855,700	100%
2007	5,078,674	100%
2006	5,083,180	100%

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

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

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

(3) Additional State funding is required for the School Employees Plan in the amount of $23,465,817 and for the State Patrol Plan in the amount of $2,255,430, as of July 1, 2011.

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

SCHEDULE OF SERVICE EFFORTS AND ACCOMPLISHMENTS

Fiscal Years Ended June 30, 2007 Through 2011
(Unaudited)

	2007	2008	2009	2010	2011
SCHOOL EMPLOYEES					
Active Members	37,152	37,832	39,231	39,764	39,886
Inactive Members	18,147	18,995	19,413	19,762	20,326
Retirees	14,408	15,339	15,949	16,912	17,814
Total Benefits Paid (3)	$ 234,129,493	$ 261,336,738	$ 289,529,736	$ 308,630,269	$ 339,042,978
Average Annual Benefit (1)	$ 16,250	$ 17,037	$ 18,153	$ 18,249	$ 19,032
Average Monthly Benefit (4)	$ 1,354	$ 1,420	$ 1,513	$ 1,521	$ 1,586
Administrative Expenses	$ 3,833,125	$ 5,104,501	$ 2,675,297	$ 5,925,090	$ 4,005,120
Average Admin. Expense Per Member (2)	$ 54.99	$ 70.73	$ 35.87	$ 77.51	$ 51.33
JUDGES					
Active Members	154	157	154	153	146
Inactive Members	10	9	8	8	7
Retirees	159	155	157	154	160
Total Benefits Paid (3)	$ 5,068,066	$ 5,277,937	$ 5,433,233	$ 5,576,749	$ 5,801,195
Average Annual Benefit (1)	$ 31,875	$ 34,051	$ 34,607	$ 36,213	$ 36,257
Average Monthly Benefit (4)	$ 2,656	$ 2,838	$ 2,884	$ 3,018	$ 3,021
Administrative Expenses	$ 419,300	$ 362,628	$ 421,682	$ 169,228	$ 73,981
Average Admin. Expense Per Member (2)	$ 1,298.14	$ 1,129.68	$ 1,321.89	$ 537.23	$ 236.36
STATE PATROL					
Active Members	484	496	468	444	433
Inactive Members	15	9	11	13	17
Retirees	341	352	372	390	402
Total Benefits Paid (3)	$ 11,969,795	$ 12,781,649	$ 13,347,738	$ 13,646,360	$ 14,139,558
Average Annual Benefit (1)	$ 35,102	$ 36,312	$ 35,881	$ 34,991	$ 35,173
Average Monthly Benefit (4)	$ 2,925	$ 3,026	$ 2,990	$ 2,916	$ 2,931
Administrative Expenses	$ 433,960	$ 366,917	$ 582,678	$ 167,999	$ 95,131
Average Admin. Expense Per Member (2)	$ 516.62	$ 428.14	$ 684.70	$ 198.35	$ 111.66

Notes:

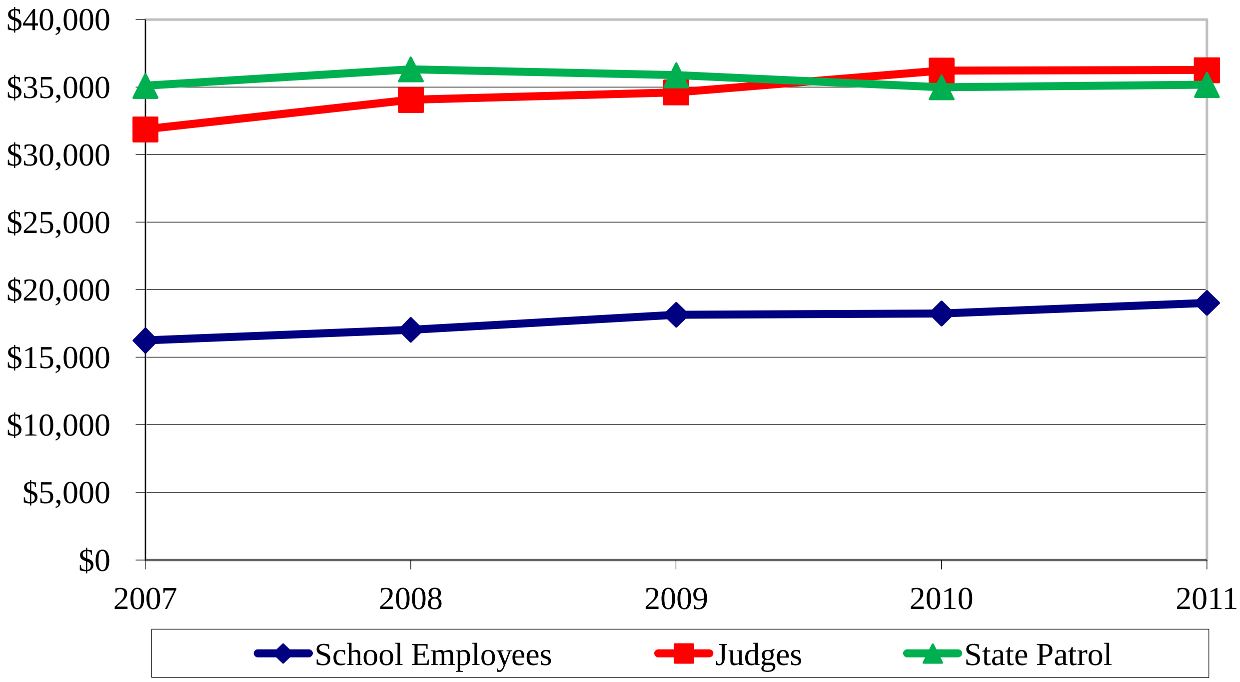
(1) Calculated: Total Benefits Paid/#Total Retirees=Average Annual Benefit

(2) Calculated: Administrative Expenses/Total Members=Average Admin Expense Per Member

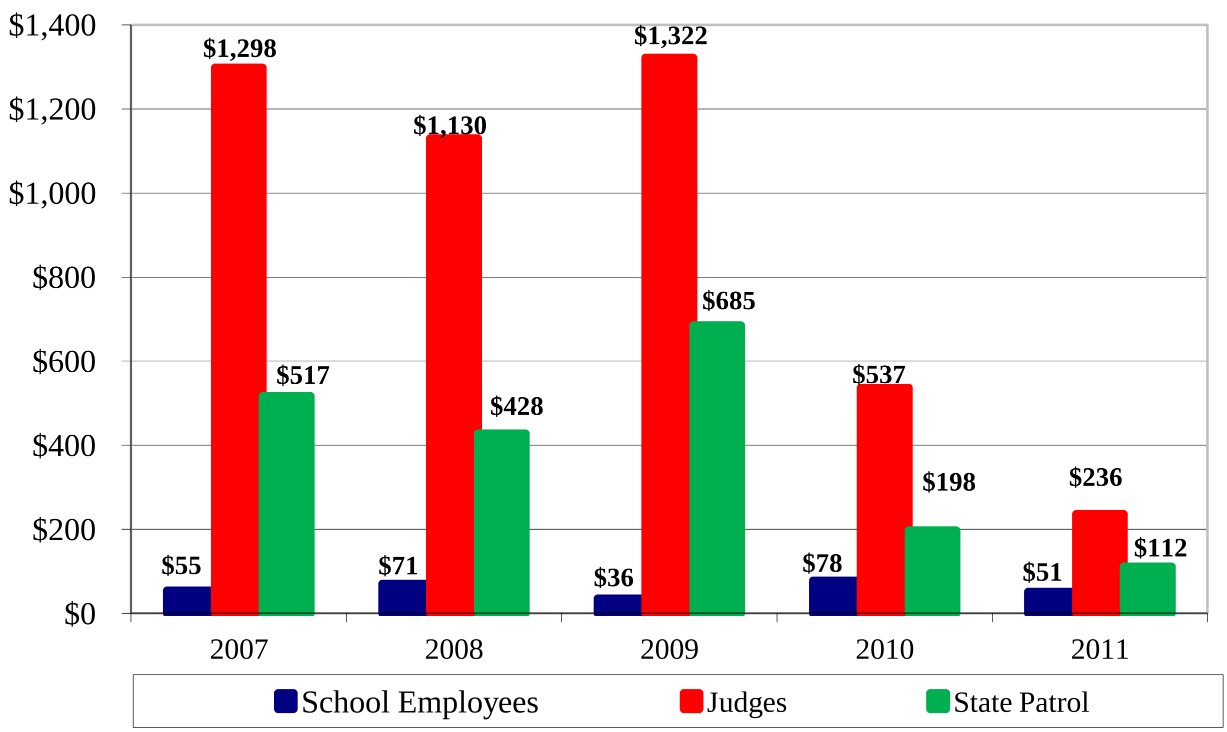
(3) Total benefits paid does not include refunds

(4) Calculated: Average Annual Benefit/12 = Average Monthly Benefit

Average Annual Benefit
(Unaudited)



Average Administrative Expenses Per Member
(Unaudited)



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NEBRASKA PUBLIC EMPLOYEES RETIREMENT SYSTEMS
SCHOOL EMPLOYEES, JUDGES, AND STATE PATROL 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 Board
Lincoln, Nebraska

We have audited the financial statements of the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans as of and for the year ended June 30, 2011, and have issued our report thereon dated April 12, 2012. The report was modified to disclose that Management's Discussion and Analysis was not presented and to emphasize the financial statements present only the funds of the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol 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 - School Employees, Judges, and State Patrol Retirement Plans' internal control over financial reporting (internal control) 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 – School Employees, Judges, and State Patrol Retirement Plans' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' internal control.

A deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies that are described in the Comments Section of the report: Comment Number 1 (School District Testing), Comment Number 2 (Resolution of Prior Year School Audit Findings) and Comment Number 5 (Lack of Written Procedures and Proper Controls). A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We also noted certain additional items that we reported to management of the Nebraska Public Employees Retirement Systems - School Employees, Judges, and State Patrol Retirement Plans' in the Comments Section of the report as Comment Number 3 (Berwyn Death Audit Review), Comment Number 4 (Lack of Statutory Authority and Rules and Regulations), Comment Number 6 (Lack of Adequate Procedures Regarding Required Minimum Distributions), Comment Number 7 (Shared System Access), and Comment Number 8 (Inconsistent Plan Documents).

The Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol Retirement Plans' written response to the findings identified in our audit are described in the Comments Section of the report. We did not audit Nebraska Public Employees Retirement Systems – School Employees, Judges, and State Patrol 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

April 12, 2012

Pat Reding, CPA, CFE
Assistant Deputy Auditor