AUDIT REPORT
OF THE
OMAHA SCHOOL EMPLOYEES' RETIREMENT SYSTEM

PENSION TRUST FUND OF
DOUGLAS COUNTY SCHOOL DISTRICT #0001
OMAHA, NEBRASKA

FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2022

Issued on June 21, 2023

OMAHA SCHOOL EMPLOYEES' RETIREMENT SYSTEM

TABLE OF CONTENTS

BACKGROUND

In 1909, the Douglas County School District #0001 (District) began maintaining a retirement system for its teachers. Subsequently, the District added two more retirement systems, one covering non-teaching school employees and one covering school cafeteria employees. In 1951, the Nebraska State Legislature consolidated the three systems into one new system.

All full-time employees of the District, Omaha School Employees' Retirement System (OSERS), and Educational Service Unit #19 are covered by OSERS. OSERS is a single-employer defined-benefit retirement plan.

OSERS has traditionally been governed by the Board of Trustees. Beginning July 1, 2016, its composition included the following:

- Two members of the retirement system who are certificated staff elected by the members of the retirement system who are certificated staff;
- One member of the retirement system who is classified staff elected by the members of the retirement system who are classified staff;
- One member of the retirement system who is an annuitant elected by the members of the retirement system who are annuitants;
- The superintendent of schools or his or her designee to serve as a voting, ex-officio trustee; and
- Two business persons approved by the board of education qualified in financial affairs who are not members of the retirement system.

OSERS is administered by an Administrator. The State of Nebraska has the authority to establish or amend OSERS provisions and obligations.

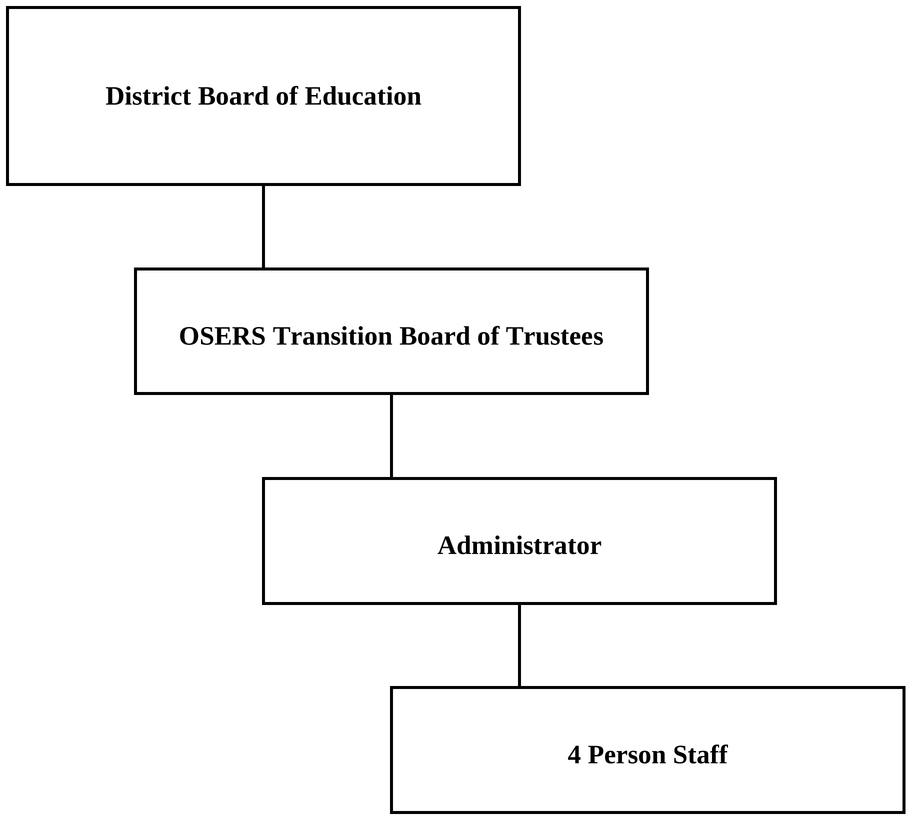
Beginning July 1, 2021, the Board of Education for the District, by a majority vote of its members, appointed seven trustees to serve on a newly created Transition Board of Trustees – the purpose of which is to facilitate, as directed by the Board of Education, transition of the management and general administration of the retirement system until September 1, 2024, when the administration will transfer to the Nebraska Public Employees Retirement Board. The Transition Board of Trustees is composed of the following:

- The superintendent of the school district or his or her designee to serve as a voting, ex officio trustee;
- Two members of the retirement system, one of whom is a teacher;
- Two members of the board of education; and
- Two trustees who are business persons qualified in financial affairs and who are not members of the retirement system.

Effective September 1, 2024, the Transition Board of Trustees described above will terminate, the terms of the trustees will end, and the Nebraska Public Employees Retirement Board will assume administration of the retirement system. Administration does not include financial responsibility or liability of the funding obligation for the retirement system, which remains with the District, as described in the Class V School Employees Retirement Act, nor does it include responsibility for investment of funds, which authority and responsibility is to be retained by the Nebraska Investment Council and the State Investment Officer.

OMAHA SCHOOL EMPLOYEES' RETIREMENT SYSTEM

ORGANIZATIONAL CHART



OMAHA SCHOOL EMPLOYEES' RETIREMENT SYSTEM

KEY OFFICIALS AND AGENCY CONTACT INFORMATION

Douglas County School District #0001 Board of Education

Spencer Head
President

Ricky Smith
Vice President

Tracy Casady
Board Member

Jane Erdenberger
Board Member

Bri Full
Board Member

Dr. Shavonna Holman
Board Member

Margo Juarez
Board Member

Nancy Kratky
Board Member

Nick Thielen
Board Member

Cheryl J. Logan, Ed.D
Superintendent

OSERS Transition Board of Trustees

Cheryl J. Logan, Ed.D
Superintendent

Jane Erdenberger
Board of Education Representative

Spencer Head
Board of Education Representative

Sharon Block
Active Member

Faith Johnson
Active Member (Teacher Representative)

Patrick Bourne
Community Business Representative

Scott Herchenbach
Community Business Representative

OSERS Management

Shane Rhian
Administrator

OSERS
3215 Cuming Street
Omaha, Nebraska 68131
www.ops.org/retirement

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
auditors.nebraska.gov

OMAHA SCHOOL EMPLOYEES' RETIREMENT SYSTEM

INDEPENDENT AUDITOR'S REPORT

Omaha School Employees' Retirement System
Transition Board of Trustees
Omaha, Nebraska

Report on the Audit of the Financial Statements

Unmodified Opinion

We have audited the accompanying Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position of the Omaha School Employees' Retirement System (OSERS), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise OSERS' basic financial statements, as listed in the Table of Contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of OSERS, as of December 31, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of OSERS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements of OSERS are intended to present the financial position and the changes in financial position of only that portion of the Douglas County School District #0001 (District) that is attributable to the transactions of OSERS. They do not purport to, and do not, present fairly the financial position of the District as of December 31, 2022, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about OSERS' ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OSERS' internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about OSERS' ability to continue as a going concern for a reasonable period of time.

We are required to communicate those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7-9, the Schedule of Changes in the Net Pension Liability on page 27, the Schedule of Changes in Employer and Non-Employer Contributions on page 28, the Schedule of Money-Weighted Rates of Return on page 29, and the Notes to the Required Supplemental Information on pages 30-33, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express

any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2023, on our consideration of OSERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OSERS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OSERS' internal control over financial reporting and compliance.

Zachary Wells

Lincoln, NE
June 20, 2023

Zachary Wells, CPA, CISA
Assistant Deputy Auditor

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Thousands of Dollars)
(Unaudited)

Overview

The following overview is a discussion and analysis of the financial activities of the School Employees' Retirement System of Douglas County School District #0001, more commonly known as the Omaha School Employees' Retirement System (OSERS), as of and for the calendar year ended December 31, 2022. Its purpose is to provide explanations and insights into the information presented in the financial statements, notes to the financial statements, and required supplementary information.

Financial Highlights

Net position of OSERS on December 31, 2022, was $1,421,886, a net decrease of $214,036 from December 31, 2021. OSERS net position represents funds available to pay current and future pension benefits.

OSERS experienced total net additions of ($62,362) during this past calendar year. The additions are comprised of $70,439 from employer contributions, $40,550 from member contributions and purchases of service, $10,439 from the non-employer (State) contributions, and ($184,817) from net investment income.

Pursuant to Nebraska Revised Statutes section 79-9,113(c), as amended by LB 1005 (2018), the Douglas County School District #0001 (District) is required to contribute the amount noted by the actuary as necessary to maintain the solvency of OSERS. This revised statute further defines solvency as an amount equal to or greater than the actuarially required contribution rate. For the calendar year ended December 31, 2022, the District made an additional contribution of $29,483 to OSERS to meet the solvency requirement, and this amount is included in total employer contributions. The District's additional contribution was $7,681 more than the actuarially required amount of $21,802.

Total retirement benefits paid in the calendar year 2022 were $142,272. This represents benefit payments to up to 5,360 retirees monthly. OSERS continued to experience many employees who depart early to mid-career, continuing the processing of refunds to members who elect to withdraw their employee contribution (plus interest). For the calendar year ending December 31, 2022, OSERS refunded $8,550 of contributions and interest to former members. Refunds are paid to former District employees who are members, at the member's request, whether they are vested or non-vested. A vested member requesting a refund is forfeiting their rights to a future retirement benefit from OSERS.

Overview of the Financial Statements

The discussion and analysis below is intended to assist the reader in better understanding the purpose and meaning of each of the key components of the financial statements, which are comprised of the following:

1. The *Statement of Fiduciary Net Position* presents information about OSERS assets and liabilities, with the difference between the two reported as *Net Position Restricted for Pensions*. The level of net position reflects the resources available to pay benefits to members when due. Over time, increases and decreases in net position measure whether the financial position of OSERS is improving or deteriorating.

2. The *Statement of Changes in Fiduciary Net Position* presents the results of OSERS fund operations during the year and discloses the additions to and deductions from fiduciary net position. It supports the net change that has occurred to the prior year's net position on the statement of fiduciary net position.

3. The *Notes to the Financial Statements* provide additional information that is essential to gain a full understanding of the data provided in the basic financial statements. The notes provide important and detailed information about OSERS, the pension trust fund, and the statements themselves.

(Thousands of Dollars)

4. The *Required Supplementary Information* consists of data on the funded status of OSERS, the status of contributions from the Douglas County School District #0001 and the State of Nebraska, and the money-weighted rate of return of investments.

Financial Analysis

The following table shows condensed information from the statement of fiduciary net position:

	Fiduciary Net Position			
	CYE 12/31/2022	CYE 12/31/2021	Change in Fiscal Year	Percent Change in Fiscal Year
Total Assets	$ 1,557,646	$ 1,729,370	$ (171,724)	-9.93%
Total Liabilities	135,760	93,448	42,312	45.28%
Net Position	$ 1,421,886	$ 1,635,922	$ (214,036)	-13.08%

The decrease in total assets is primarily due to a decrease of $212,184 in total investments. This decrease was the result of overall unfavorable market conditions during calendar year 2022.

The increase in total liabilities is primarily due to an increase in other investments payable of $42,484.

The following tables show condensed information from the statement of changes in fiduciary net position:

	Additions to Fiduciary Net Position			
	CYE 12/31/2022	CYE 12/31/2021	Change in Fiscal Year	Percent Change in Fiscal Year
Employer Contributions	$ 70,439	$ 61,951	$ 8,488	13.70%
Plan Member Contributions	40,550	37,457	3,093	8.26%
Non-Employer (State) Contributions	10,439	8,915	1,524	17.09%
Total Contributions	121,428	108,323	13,105	12.10%
Net Investment Income	(184,817)	243,693	(428,510)	-175.84%
Other Additions	1,027	270	757	280.37%
Total Investment Income and Other Additions	(183,790)	243,963	(427,753)	-175.34%
Total Additions	$ (62,362)	$ 352,286	$ (414,648)	-117.70%

The increase in employer contributions is due to an additional contribution of $7,681 made as a supplement to the District's actuarial required contribution of $21,802. The $428,510 decrease in net investment income was the result of overall unfavorable market conditions experienced during calendar year 2022.

	Deductions from Fiduciary Net Position			
	CYE 12/31/2022	CYE 12/31/2021	Change in Fiscal Year	Percent Change in Fiscal Year
Retirement Benefits	$ 142,272	$ 137,263	$ 5,009	3.65%
Refunds to Members	8,550	6,407	2,143	33.45%
Administrative Expenses	852	963	(111)	-11.53%
Total Deductions	$ 151,674	$ 144,633	$ 7,041	4.87%

The increase in refunds to members is due to the increased turnover of vested and non-vested members leaving the District and requesting a refund of their contributions and interest earned.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Thousands of Dollars)
(Concluded)

Legislative Changes
During 2021, the Nebraska 107th Legislature enacted Legislative Bill (LB) 147. LB 147 contained instituted changes in governance to the administration of OSERS. Effective July 1, 2021, the management oversight for OSERS was invested in the District Board of Education giving the District Board of Education the authority to appoint seven members to the OSERS Transition Board of Trustees. The OSERS Transition Board of Trustees is now a seven-member board consisting of the District Superintendent, two business community members, two representatives of the District Board of Education, and two members of OSERS.

Additionally, LB 147 mandated the transition of the administration of OSERS to the Nebraska Public Employees' Retirement Board, effective September 1, 2024. The OSERS Transition Board and the District Board of Education are charged with ensuring the transition of administration by September 1, 2024.

LB 147 implemented other administrative changes including but not limited to a mandated compliance audit of OSERS in 2021 and a mandated use of the Nebraska State Auditor's office to perform calendar year financial statement audits of OSERS beginning with calendar year 2021.

Requests for Information
This financial report is designed to provide OSERS' sponsor, the Board of Trustees, OSERS membership, contributors, taxpayers, and creditors with a general overview of OSERS' finances and to demonstrate OSERS' accountability for the money it receives. Additional details, questions or comments can be requested from Shane T. Rhian, Administrator, Omaha School Employees' Retirement System, 3215 Cuming Street, Omaha, NE 68131-2024, (531) 299-9430, Shane.Rhian@ops.org. Please visit the OSERS website at ops.org/retirement for additional financial and other information.

OMAHA SCHOOL EMPLOYEES' RETIREMENT SYSTEM

STATEMENT OF FIDUCIARY NET POSITION

December 31, 2022

(Thousands of Dollars)

ASSETS	
Cash and Cash Equivalents	$ 12,482
Receivables	
Employer Contributions Receivable	2,692
Employee Contributions Receivable	2,666
Other Investments Receivable (Note 3)	72,778
Other Receivable	9,287
Total Receivables	87,423
Investments, at fair value (Note 3)	
Asset Backed Securities	22,896
Bank Loans	11,422
Commingled Debt	92,756
Commingled Funds	485,313
Corporate Bonds	112,978
Equity Securities	230,090
Government Agency Securities	4,013
International Bonds	5,418
Mortgages	91,250
Municipal Bonds	712
Options	(121)
Private Equity	168,145
Private Real Estate	108,654
Rights/Warrants	203
Short Term Investments	45,935
US Treasury Notes and Bonds	57,496
Total Investments	1,437,160
Invested Securities Lending Collateral (Note 3)	20,581
TOTAL ASSETS	1,557,646
LIABILITIES	
Refunds Payable and Accounts Payable	5,269
Accrued Payroll and Benefits Payable	12,116
Obligations Under Securities Lending (Note 3)	20,581
Other Investments Payable (Note 3)	97,794
TOTAL LIABILITIES	135,760
Fiduciary Net Position - Restricted for Pension Benefits	$ 1,421,886

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

OMAHA SCHOOL EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Calendar Year Ended December 31, 2022
(Thousands of Dollars)

ADDITIONS	
Contributions	
Plan Member Contributions	$ 40,550
Employer Contributions	70,439
Non-Employer (State) Contributions	10,439
Total Contributions	121,428
Investment Income	
Interest and Dividends	21,926
Securities Lending Income	621
Net Appreciation in Fair Value of Investments	(202,707)
Total Investment Income	(180,160)
Investment Expense	(4,186)
Securities Lending Expense	(471)
Net Investment Income	(184,817)
Other Additions	1,027
Total Additions	(62,362)
DEDUCTIONS	
Retirement Benefits	142,272
Refunds to Employees, including Interest	8,550
Administrative expenses	
Personnel Costs	464
Professional Fees	319
Other	69
Total Administative Expenses	852
Total deductions	151,674
Net Decrease in Fiduciary Net Position	(214,036)
FIDUCIARY NET POSITION - RESTRICTED FOR PENSION BENEFITS:	
BEGINNING OF YEAR	1,635,922
END OF YEAR	$ 1,421,886

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

NOTES TO THE FINANCIAL STATEMENTS
(Thousands of Dollars)

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The following is a summary of the significant accounting policies of the Omaha School Employees' Retirement System (OSERS). These policies are in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standard Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

In 1909, the Douglas County School District #0001 (District) began maintaining a retirement system for its teachers. Subsequently, the District added two more retirement systems, one covering non-teaching school employees and one covering school cafeteria employees. In 1951, the Nebraska State Legislature consolidated the three systems into one new system. The new system, OSERS, is a defined-benefit plan.

OSERS is included as a pension trust fund of the District. The financial statements present only the financial position and changes in financial position of OSERS and do not purport to, and do not, present fairly the financial position of the District, as of December 31, 2022, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

C. Basic Financial Statements

The financial transactions of OSERS are included in the fiduciary funds of the District. The fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, net position, additions, and deductions. This fund is used to report assets held in a trustee or agency capacity for others, and therefore, are not available to support the District's programs.

D. Basis of Accounting/Measurement Focus

OSERS activity is accounted for on an economic-resources measurement focus using the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. District (employer) contributions and contributions from the State of Nebraska to OSERS are recognized when due and the employer or State has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of OSERS provisions.

E. Cash and Cash Equivalents

OSERS cash is considered to be cash on hand and demand deposits.

F. Investments

The Nebraska Investment Council, on behalf of OSERS, invests in both short-term and long-term securities. Law or legal instruments may restrict these investments. All investments are stated at fair value in accordance with generally accepted accounting principles. Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. The valuation methodologies are generally based on quoted market prices.

1. Summary of Significant Accounting Policies (Concluded)

These valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. 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 are under the responsibility of the Nebraska Investment Council.

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

G. Net Realized Gains and Losses on Investments

Market value fluctuations and changes in yields make it beneficial to trade securities periodically. These trades are recommended by the investment managers and are intended to maximize growth and earnings. When a trade is executed, the market value is compared to the cost and any difference is recognized as net realized gain or loss. No adjustments are recognized for the anticipated change in growth or yield.

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of fiduciary net position and changes therein, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

2. OSERS Description and Contribution Information

A. Membership Information

Membership consisted of the following as of January 1, 2023, the date of the most recent valuation report:

Inactive members or their beneficiaries currently receiving benefits	5,340
Inactive members entitled to but not yet receiving benefits	1,539
Inactive nonvested members entitled to a refund of member contributions	1,476
Active members	6,712
Total	15,067

OSERS is administered under four membership tiers. Each membership tier's composition is defined in the most recent Annual Actuarial Report.

B. OSERS Description

All full-time employees of the District, OSERS, and Educational Service Unit #19 are covered by OSERS. OSERS is a single-employer defined-benefit retirement plan. Participants should refer to the Class V

2. OSERS Description and Contribution Information (Continued)

School Employees Retirement Act, Neb. Rev. Stat. §§ 79-978 through 79-9,124 (Reissue 2014, Cum. Supp. 2022). Benefit and contribution provisions are established by State law and may be amended only by the Nebraska Legislature. The State of Nebraska has the authority under which OSERS provisions and obligations may be amended or established.

During 2021, the Nebraska 107th Legislature enacted Legislative Bill (LB) 147. LB 147 contained instituted governance changes to the administration of OSERS. Effective July 1, 2021, the management oversight was invested in the District Board of Education, giving the District Board of Education the authority to appoint seven members to the OSERS Transition Board of Trustees. The OSERS Transition Board of Trustees is now a seven-member board consisting of the District Superintendent, two business community members, two representatives of the District Board of Education, and two members of OSERS. The District Board of Education also appoints the Administrator of OSERS.

Additionally, LB 147 mandated the transition of the administration of OSERS to the Nebraska Public Employees' Retirement Board, effective September 1, 2024. The OSERS Transition Board and the District Board of Education are charged with ensuring the transition of administration by September 1, 2024.

C. Contributions

Employees of the District, OSERS, and Educational Service Unit #19 are required to contribute 9.78% of their annual salary to OSERS. To maintain the solvency of OSERS, Neb. Rev. Stat. § 79-9,113(1)(d) (Cum. Supp. 2022) requires contributions by the District in any fiscal year beginning on or after September 1, 2018, to be the greater of 101% of employee contributions (9.878% of member salaries) or the actuarially determined contribution rate.

The actuarially determined contribution rate, as required by § 79-9,113(1)(d), resulted in an additional required contribution of $21,802. Total additional contributions made by the District during the calendar year ended December 31, 2022, amounted to $29,483 to meet solvency requirements.

The State of Nebraska contributes 2% of the employee's compensation. Administrative costs of OSERS are financed through investment earnings.

D. Benefits Provided

Each employee who has completed five or more years of creditable service is eligible to elect a deferred vested service annuity in lieu of a refund of accumulated contributions. OSERS provides for various benefits, including normal retirement benefits, early retirement benefits, disability benefits, and pre-retirement and post-retirement survivor benefits. These benefits are paid monthly from OSERS. For members hired prior to July 1, 2013, the benefits under OSERS are based on an average of the highest three years of salary earned by employees during their employment with the District, up to their normal retirement dates. For members hired on or after July 1, 2013, the benefits under OSERS are based on an average of the highest five years of salary earned by employees during their employment with the District, up to their normal retirement dates.

Employees who terminate employment with fewer than five years of creditable service can elect to receive a refund or a rollover of the employee's contributions, plus accrued interest.

2. OSERS Description and Contribution Information (Concluded)

For members hired prior to July 1, 2013, retirement benefits are increased by an annual, automatic cost of living adjustment (COLA) of 1.5% or the increase in the consumer price index (CPI), whichever is lower. For members hired on or after July 1, 2013, retirement benefits are increased by an annual, automatic COLA of 1.0% or the increase in the CPI, whichever is lower.

Following 10 full years of retirement, a medical cost of living supplement is paid. This supplement equals $10 per month for each year retired and increases by $10 each year to a maximum of $250 per month. For retirees with less than twenty years of service, the benefit is reduced proportionately. For members hired on or after July 1, 2016, no state service annuity or medical COLA is provided.

Retirement eligibility rules for OSERS members are based on the member's date of hire in accordance with Neb. Rev. Stat. §§ 79-978 to 79-9,124 (Reissue 2014, Cum. Supp. 2022), known as the Class V School Employees Retirement Act.

3. Cash and Investments

Deposits. At December 31, 2022, the carrying amounts of the OSERS' deposits were $12,482, and the bank balances were $12,555. All bank balances were covered by Federal depository insurance or by collateral held by the District agent in the District's name. Per the requirements of the Public Funds Deposit Security Act, which is set out at Neb. Rev. Stat. § 77-2386 et seq. (Reissue 2018, Cum. Supp. 2022), the aggregate amount of collateral securities deposited by a bank with the State Treasurer must be at least one hundred two percent of the amount of public funds deposited in that bank, less the amount insured by the Federal Deposit Insurance Corporation. The District had compensating balance agreements with various banks, totaling $65,000, at December 31, 2022.

Investments. OSERS investments must be in the custody of the State of Nebraska or deposited with an agent in the State's name. Neb. Rev. Stat. § 72-1239.01(3) (Cum. Supp. 2022) directs the appointed members of the Nebraska Investment Council to do the following:

> *[A]ct with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims by diversifying the investments of the assets of the retirement systems . . . .*

The following are two different presentations of OSERS investments, by investment type, at December 31, 2022. The first table below presents all investments stated at fair value using valuation techniques to measure fair value, followed by a table presenting investments at fair value for financial statement purposes, with debt securities presented with effective duration stated in years.

OSERS utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets that the State has the ability to access at the measurement date. Instruments categorized in Level 1 consist primarily of a broadly traded range of equity and debt securities.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset.

(Thousands of Dollars)

3. Cash and Investments (Continued)

Fair value is based on actively quoted market prices, if available. In the absence of actively quoted market prices, price information from external sources, including broker quotes and industry publications, are used. If pricing information from external sources is not available or if observable pricing is not indicative of fair value, judgment is required to develop the estimates of fair value using discounted cash flows and other income valuation approaches.

Investments as of December 31, 2022, at Fair Value Measurement Using:

	Fair Value	Level 1	Level 2	Level 3
Debt Securities:				
Asset Backed Securities	$ 22,896	$ -	$ 22,891	$ 5
Bank Loans	11,422	-	11,422	-
Commingled Debt	92,756	85,759	6,997	-
Corporate Bonds	112,978	-	112,978	-
Government Agency Securities	4,013	-	4,013	-
International Bonds	5,418	-	5,418	-
Mortgages	91,250	-	91,250	-
Municipal Bonds	712	-	712	-
Rights/Warrants	203	203	-	-
Short Term Investments	45,935	17,021	28,914	
US Treasury Notes and Bonds	57,496	-	57,496	-
	445,079	102,983	342,091	5
Other Investments:				
Commingled Funds	485,313	184,922	300,391	-
Equity Securities	230,090	229,996	94	-
Private Equity	1,830	1,830	-	
Options	(121)	(65)	(55)	-
Total Investments	$ 1,162,191	$ 519,666	$ 642,521	$ 5

		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investments Measured at the Net Asset Value (NAV):				
Real Estate Funds			Quarterly	90 Days
Core	$ 49,997	$ -		
Non-Core	58,657	29,537		
Private Equity Funds	159,352	25,456		
Hedge Funds	6,963	-		
Total Investments measured at Net Asset Value	$ 274,969	$ 54,993		
Total	1,437,160			
Securities Lending Collateral	20,581			
Total Investments at Fair Value	$ 1,457,741			

3. Cash and Investments (Continued)

Debt securities and other investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities and other investments classified in Level 2 of the fair value hierarchy are valued using the following approaches:

- U.S. Treasury Notes and Bonds, Government Agency Securities, and Short Term Investments: quoted prices for identical securities in markets that are not active;
- Corporate, International, Municipal Bonds, and Equity Securities: quoted prices for similar securities in active markets;
- Asset Backed Securities, Bank Loans, and Mortgages: matrix pricing, based on accepted modeling and pricing conventions, of the securities' relationship to benchmark quoted prices;
- Commingled Funds: published fair value per share (unit) for each fund.

Debt securities and other investments classified in Level 3 are valued using unobservable inputs, such as reviews, recommendations and adjustments made by portfolio management, or the use of internal data to develop unobservable inputs if no objective information is available without incurring undue cost and effort.

Certain investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) have not been categorized in the fair value hierarchy. The fair value amounts at NAV presented in the above table are intended to permit reconciliation of the fair value hierarchy to the amount presented in the statement of fiduciary net position. Investments valued using the net asset value per share are considered "alternative investments" and, unlike more traditional investments, generally do not have readily obtainable market values and take the form of limited partnerships. OSERS values these investments based on the partnerships' audited financial statements. If December 31 statements are available, those values are used preferentially. However, some partnerships have fiscal years ending at other than December 31. If December 31 valuations are not available, the value is progressed from the most recently available valuation taking into account subsequent calls and distributions. The NAV table also presents the unfunded commitments, redemption frequency (if currently eligible), and the redemption notice period for the OSERS alternative investments. Investments measured by NAV are either short term in nature or intended to be held to maturity. Therefore, they do not bear a significant risk of being sold at amounts different than the NAV.

NOTES TO THE FINANCIAL STATEMENTS
(Thousands of Dollars)
(Continued)

3. Cash and Investments (Continued)

OSERS Investments at December 31, 2022

	Fair Value	Effective Duration
Debt Securities:		
Asset Backed Securities	$ 22,896	1.41
Bank Loans	11,422	(0.07)
Commingled Debt	92,756	5.74
Corporate Bonds	112,978	5.49
Government Agency Securities	4,013	1.39
International Bonds	5,418	7.04
Mortgages	91,250	4.41
Municipal Bonds	712	10.91
Rights/Warrants	203	-
Short Term Investments	45,935	-
US Treasury Notes and Bonds	57,496	10.11
	445,079	
Other Investments:		
Commingled Funds	485,313	
Equity Securities	230,090	
Private Equity	168,145	
Options	(121)	
Private Real Estate Funds	108,654	
Total Investments	$ 1,437,160	
Securities Lending Collateral	20,581	
Total	$ 1,457,741	

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

OSERS investments at December 31, 2022, were presented above. All investments are presented by investment type, and debt securities are presented with an effective duration presented in years.

Credit Risk. 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. The maximum exposure to any single investment grade issuer excluding the U.S. government, its agencies or instrumentalities or government sponsored entities is five percent and the maximum exposure to a single issuer below investment grade is three percent. The primary government's rated debt investments as of December 31, 2022, 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.

(Thousands of Dollars)

3. **Cash and Investments** (Continued)

	Asset Backed Securities	Corporate Bonds	Government Agency Securities	International Bonds	Mortgages	Bank Loans	Commingled Debt	Short Term Investments	Municipal Bonds
AAA	$ 17,096	$ 206	$ 137	$ -	$ 16,371	$ -	$ -	$ -	$ 51
AA	537	1,273	460	448	212	-	-	-	597
A	350	21,722	25	567	137	-	-	-	64
BBB	591	63,028	20	1,620	48	-	-	-	-
BB	1,702	16,839	-	1,990	34	-	-	-	-
B	67	7,263	-	508	44	-	-	-	-
CCC	312	1,681	-	223	54	-	-	-	-
CC	516	33	-	33	201	-	-	-	-
C	-	-	-	-	-	-	-	-	-
D	515	-	-	7	189	-	-	-	-
NR	1,210	933	3,371	22	73,960	11,422	92,756	45,935	-
	$ 22,896	$ 112,978	$ 4,013	$ 5,418	$ 91,250	$11,422	$ 92,756	$ 45,935	$ 712

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 five percent of the total account.

At December 31, 2022, OSERS had no debt security investments, from a single entity, that comprised more than five percent of total investments.

Securities Lending Transactions. OSERS 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. OSERS' primary custodial bank administers the securities-lending program and receives collateral in the form 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-U.S. fixed income. At year-end, OSERS had no credit risk exposure to borrowers because the amounts OSERS owed the borrowers exceeded the amounts the borrowers owed OSERS. The collateral securities cannot be pledged or sold by OSERS 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 OSERS 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 3 to 5 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.

NOTES TO THE FINANCIAL STATEMENTS
(Thousands of Dollars)
(Continued)

3. Cash and 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 a deposit. The Nebraska Investment Council does not have a formal policy to limit foreign currency risk. The exposure to foreign currency is outlined below on a portfolio-wide basis.

	Asset Backed Securities	Bank Loans	Corporate Bonds	Equity Securities	International Bonds	Mortgages	Options	Private Equity	Short Term Investments
Argentine Peso	$ -	$ -	$ -	$ -	$ 2	$ -	$ -	$ -	$ 4
Australian Dollar	-	-	-	892	-	-	-	-	-
Brazilian Real	-	-	-	1,549	-	-	-	-	(7)
Canadian Dollar	-	-	-	1,425	-	-	-	5,562	7,138
Czech Koruna	-	-	-	-	-	-	-	-	-
Danish Krone	-	-	110	589	-	-	-	-	-
Euro Currency	1,735	3,598	4,245	33,849	1,106	-	(15)	5,138	2,245
Hong Kong Dollar	-	-	-	2,316	-	-	-	-	9
Hungarian Forint	-	-	-	3	22	-	-	-	-
Indonesian Rupiah	-	-	-	211	-	-	-	-	-
Japanese Yen	-	-	-	11,640	-	-	-	-	134
Kuwaiti Dinar	-	-	-	88	-	-	-	-	-
Malaysian Ringgit	-	-	-	25	-	-	-	-	-
Mexican peso	-	-	-	584	-	-	-	-	-
New Israeli Sheqel	-	-	-	191	-	-	-	-	-
New Zealand Dollar	-	-	-	-	-	-	-	-	-
Norwegian Krone	-	-	-	423	-	-	-	-	8
Philippine Peso	-	-	-	303	-	-	-	-	-
Polish Zloty	-	-	-	36	-	-	-	-	-
Pound Sterling	-	730	581	13,900	-	1,468	-	12,337	4,452
Russian Ruble	-	-	-	217	-	-	-	-	-
Peruvian Nuevo Sol	-	-	-	-	106	-	-	-	-
South African Rand	-	-	-	51	949	-	-	-	-
South Korean Won	-	-	-	1,139	-	-	-	-	-
Swedish Krona	-	-	-	2,046	-	-	-	-	-
Swiss Franc	-	-	-	10,462	-	-	-	-	-
Thailand Baht	-	-	-	254	-	-	-	-	-
Turkish Lira	-	-	-	1,972	-	-	-	-	-
Yuan Renminbi	-	-	-	5,505	-	-	-	-	(1,266)
Yuan Renminbi Offshore	-	-	-	-	-	-	-	-	1,272
Total	$ 1,735	$ 4,328	$ 4,936	$ 89,670	$ 2,185	$ 1,468	$ (15)	$ 23,037	$ 13,989

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 reduce the volatility of the portfolio, in accordance with the Nebraska Investment Council-approved Derivatives Policy. OSERS 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. OSERS invests in these contracts related to securities of the U.S. government or Government Agency obligations based on reference notes, which

(Thousands of Dollars)

3. Cash and Investments (Continued)

are traded on organized exchanges, thereby minimizing OSERS' credit risk. The net change in futures and options contract values are 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 derivative instruments are reflected in investment income, and the fair value of derivative instruments at December 31, 2022, are reflected in investments. The fair value balances and notional amounts of derivative instruments outstanding at December 31, 2022, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows:

Derivative Instrument	Change in Fair Value	Fair Value	Notional
Credit Default Swaps Bought	$ (19)	$ (16)	$ 1,960
Credit Default Swaps Written	(295)	(73)	4,864
Fixed Income Futures	(1,408)	-	17,642
Fixed Income Options Bought	2	55	6,794
Fixed Income Options Written	(25)	(110)	(20,825)
Foreign Currency Options Written	38	-	-
Futures Options Written	(46)	(65)	(46)
FX Forwards	644	(178)	18,765
Pay Fixed Interest Rate Swaps	1,170	876	24,194
Receive Fixed Interest Rate Swaps	(1,165)	(891)	16,020
Rights	6	-	-
Total Return Swaps Equity	1	(5)	(340)
Warrants	163	203	5
Total	$ (935)	$ (204)	$ 69,033

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 December 31, 2022, 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 Plan is 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 Plan has never failed to access collateral when required.

The aggregate fair value of derivative instruments in asset positions at December 31, 2022, was $(204). This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. No collateral is held or liabilities included in netting arrangements with those counterparties; therefore, the net exposure to credit risk is $(204).

Although the Plans execute derivative instruments with various counterparties, approximately 99 percent of the net exposure is to credit risk, held with eight counterparties. The counterparties are rated BBB+, A, or A+.

(Thousands of Dollars)

3. Cash and Investments (Concluded)

OSERS is 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 they 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 rates; short positions (pay fixed) decrease exposure. Counterparty risk is limited to monthly exchanged or netted cash flows. All of OSERS's interest rate swaps were fixed with a LIBOR (London Interbank Offered Rate) or SIFMA (Securities Industry and Financial Market Association) reference rate. Foreign currency risk for derivative instruments at December 31, 2022, are as follows:

Currency	Options	Swaps	Forward Contracts
Australian Dollar	$ -	$ -	$ (1)
Brazilian Real	-	(7)	(4)
Chilean Peso	-	-	(1)
Yuan Renminbi Offshore	-	-	6
Danish Krone	-	-	(4)
Euro Currency	(15)	(533)	(143)
Pound Sterling	-	45	12
Hungarian Forint	-	-	(1)
Japanese Yen	-	337	(4)
Peruvian Nuevo Sol	-	-	(6)
South African Rand	-	-	(32)
Total	$ (15)	$ (158)	$ (178)

Other Investment Receivables/Other Investment Payables. Other investment receivables consist of receivables for investments sold, receivables for foreign exchanges, dividends and interest receivable, tax reclaim receivables, unrealized appreciation/ depreciation on such assets and other receivables as recorded by the custodial bank. Other investment payables consisted of payables for investments purchased, payables for foreign currency purchased, unrealized appreciation/depreciation on such payables and other payables as recorded by the custodial bank.

Securities are recorded on a trade date basis. On the trade date, OSERS owns 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 December 31, 2022, but the security had not settled.

Annual Money-Weighted Rate of Return. The annual money-weighted rate of return on OSERS investments, net of investment expense, was -11.09% for the year ended December 31, 2022. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Risks and Uncertainties. Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
(Thousands of Dollars)
(Continued)

4. Net Pension Liability

The components of the net pension liability of OSERS as of August 31, 2022, are as follows:

Total pension liability	$ 2,530,412
Fiduciary net position	1,460,534
Net pension liability	$ 1,069,878
Ratio of fiduciary net position to total pension liability	57.72%

Actuarial assumptions: The total pension liability was determined based on an actuarial valuation as of January 1, 2022, rolled forward to August 31, 2022, using standard actuarial formulae and the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	2.70%
Wage inflation	3.20%
Salary increases, including price inflation	3.20 – 6.60%
Long-term rate of return, net of investment expense, including price inflation	7.40%
Municipal bond index rate:	
Prior measurement date	2.12%
Measurement date	3.38%
Year fiduciary net position is expected to be depleted	N/A
Single equivalent interest rate, net of investment expense, including price inflation:	
Prior measurement date	7.50%
Measurement date	7.40%
Cost-of-living adjustments	1.50% for those who became OSERS members prior to July 1, 2013 1.00% for those who became OSERS members on or after July 1, 2013 Medical COLA of $10 per month for each year retired (max $250/month), for those who become OSERS members prior to July 1, 2016

(Thousands of Dollars)

4. **Net Pension Liability** (Continued)

Mortality	Active member mortality rates were based on the Pub-2010 General Members (Median) Employee Mortality Table projected generationally using the NPERS projection scale. Retiree mortality rates were based on the Pub-2010 General Members (Median) Retiree Mortality Table projected generationally using the NPERS projection scale. Beneficiary mortality rates were based on the Pub-2010 General Members (Median) Contingent Survivor Mortality Table projected generationally using the NPERS projection scale. Disabled retiree mortality rates were based on the Pub-2010 Non-Safety Disabled Retiree Mortality Table, without generational improvement.

The actuarial assumptions used in the valuation were based on the results of the most recent actuarial experience study, which covered the four-year period ending December 31, 2020. The experience study report is dated December 6, 2021.

Information relating to the discount rate used in the actuarial valuations is as follows:

Discount rate: The discount rate used to measure the total pension liability at August 31, 2022, was 7.40%. The discount rate used to measure the TPL at August 31, 2021, was 7.50%.

Projected cash flows: The projection of cash flows used to determine the discount rate assumed that plan contributions from plan members, the District, and the State of Nebraska will be made at the current contribution rates as set out in State statute:

a) Employee contribution rate: 9.78% of compensation.

b) District contribution rate: 101% of the employee contribution rate. In addition, if the statutory contribution rate is less than the actuarial determined contribution, the District will contribute the difference.

c) State contribution rate: 2% of the members' compensation.

d) Administrative expenses in the prior year were projected forward with price inflation as an estimate for administrative expenses in the current and future years. The portion of expenses in future years allocated to the current members was based on the proportionate share of covered payroll in each year for the remainder of the existing members to the total covered payroll for all members.

4. **<u>Net Pension Liability</u>** (Continued)

Based on those assumptions, OSERS' fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on investments of 7.40% was applied to all periods of projected benefit payments to determine the total pension liability.

The fiduciary net position projections are based upon OSERS' financial status on the measurement date, the indicated set of methods and assumptions, and the requirements of GASB Statement No. 67. As such, the fiduciary net position projections are not reflective of the cash flows and asset accumulations that would occur on an ongoing basis, reflecting the impact of future members. Therefore, the results of this test do not necessarily indicate whether or not the fund will actually run out of money, the financial condition of OSERS, or OSERS' ability to make benefit payments in future years.

Long-term rate of return: The long-term expected rate of return on plan assets is reviewed as part of regular experience studies, prepared periodically. The most recent analysis was performed, and results were included in a report dated December 6, 2021. Generally, several factors are considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and an analysis in which best estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation), along with estimates of variability and correlations for each asset class, were developed by OSERS' investment consultant. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant may cover a shorter investment horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption (30 to 50 years) and is not expected to change absent a significant change in the asset allocation, a change in the long-term inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Municipal bond rate: A municipal bond rate was not used in determining the discount rate. If it were required, the rate would be 3.38% on the measurement date.

Periods of projected benefit payments: Projected future benefit payments for all current members were projected through 2121.

Target asset allocation: OSERS' investment policy, in regard to the allocation of invested assets, is established and may be amended by the Nebraska Investment Council. Ultimately, the investment objectives, asset allocation, investment strategy, and responsibilities for the assets of OSERS will be set forth in the Nebraska Investment Council's investment policy statement for defined-benefit plans. However, there will be a period of transition as the Nebraska Investment Council determines the appropriate asset allocation and investment strategy for the OSERS investment portfolio and moves toward that structure.

The fundamental objective of the OSERS investment portfolio during the transition period is to be able to pay the promised retirement benefits of the OSERS employees covered by OSERS. The asset allocation and implementation strategy for the investment of the assets is long-term. The objective for

(Thousands of Dollars)

4. **Net Pension Liability** (Concluded)

the rate of return from the investment of the assets is to maximize the investment return on the assets within acceptable levels of risk. The following table sets out the asset allocation policy adopted by the Nebraska Investment Council for the OSERS portfolio:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
U.S. Equity	27.0%	4.3%
Non-U.S. Equity	11.5%	5.3%
Global Equity	19.0%	4.9%
Fixed Income	30.0%	1.1%
Private Equity	5.0%	6.6%
Real Estate	7.5%	3.9%
Total	100.0%	

*Arithmetic mean, net of investment expenses

Sensitivity analysis: The following presents the net pension liability of OSERS, calculated using the discount rate of 7.40%, as well as OSERS' net pension liability calculated using a discount rate that is one percentage-point lower (6.40%) or one percentage-point higher (8.40%) than the current rate:

	1% Decrease (6.40%)	Current Discount Rate (7.40%)	1% Increase (8.40%)
Net pension liability	$ 1,392,032	$ 1,069,878	$ 802,030

5. **Litigation**

OSERS is subject to lawsuits and claims for various amounts brought about in the normal course of business. In the opinion of the management, the ultimate disposition of any claims currently pending will not have a materially adverse effect on the fiduciary net position or changes in fiduciary net position of OSERS.

6. **Subsequent Event**

The Annual Actuarial Report, as of January 1, 2023, projected an additional required District contribution of $29,432 for District Fiscal Year Ended August 31, 2023.

OMAHA SCOOL EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
Last 10 Fiscal Years Ending August 31
(Thousands of Dollars)

		2022	2021	2020	2019	2018	2017	2016	2015	2014
TOTAL PENSION LIABILITY:										
Service cost at end of year	$	47,817	46,029	43,490	42,354	37,704	37,821	39,451	38,242	36,090
Interest on total pension liability		177,118	168,343	163,027	159,150	152,896	144,648	138,933	133,768	128,868
Difference between expected and actual experience		16,803	45,177	2,015	(17,656)	19,474	26,757	7,104	(501)	--
Changes of assumptions		(1,595)	--	--	--	--	141,348	--	--	--
Other*		3,637	2,290	1,808	1,991	1,832	2,088	1,946	2,919	--
Benefit payments, including member refunds		(147,214)	(142,546)	(136,485)	(131,896)	(125,272)	(118,997)	(113,106)	(106,735)	(100,810)
Net change in total pension liability		96,566	119,293	73,855	53,943	86,634	233,665	74,328	67,693	64,148
TOTAL PENSION LIABILITY -beginning of year		2,433,846	2,314,553	2,240,698	2,186,755	2,100,121	1,866,456	1,792,128	1,724,435	1,660,287
TOTAL PENSION LIABILITY -end of year	$	2,530,412	2,433,846	2,314,553	2,240,698	2,186,755	2,100,121	1,866,456	1,792,128	1,724,435
PLAN FIDUCIARY NET POSITION										
Contributions -employer	$	69,138	61,411	57,033	57,268	55,564	47,981	33,903	33,109	31,913
Contributions -state		7,534	7,290	7,302	7,420	7,111	6,897	6,661	6,453	7,888
Contributions -member		39,262	36,891	35,295	35,614	36,327	34,883	33,764	32,584	31,597
Net investment income		(144,671)	290,971	118,829	31,298	85,795	73,217	15,375	(51,214)	154,207
Benefit payments, including member refunds		(147,214)	(142,546)	(136,485)	(131,896)	(125,272)	(118,997)	(113,106)	(106,735)	(100,810)
Administrative expense		(894)	(952)	(890)	(1,087)	(867)	(1,384)	(1,290)	(814)	(1,123)
Other*		3,638	2,289	1,841	3,160	1,844	2,090	2,082	3,002	703
Net change in plan fiduciary net position		(173,207)	255,354	82,925	1,777	60,502	44,687	(22,611)	(83,615)	124,375
PLAN FIDUCIARY NET POSITION -beginning of year		1,633,741	1,378,387	1,295,462	1,293,685	1,233,183	1,188,496	1,211,107	1,294,722	1,170,347
PLAN FIDUCIARY NET POSITION -end of year	$	1,460,534	1,633,741	1,378,387	1,295,462	1,293,685	1,233,183	1,188,496	1,211,107	1,294,722
NET PENSION LIABILITY	$	1,069,878	800,105	936,166	945,236	893,070	866,938	677,960	581,021	429,713
Ratio of plan fiduciary net position to total pension liability		57.72%	67.13%	59.55%	57.82%	59.16%	58.72%	63.68%	67.58%	75.08%
Covered payroll	$	401,451	377,207	360,891	364,154	371,440	356,676	345,231	333,166	323,078
Net pension liability as a percentage of covered payroll		266.50%	212.11%	259.40%	259.57%	240.43%	243.06%	196.38%	174.39%	133.01%

* Effective 2015, other amounts include transfer of assets of state service annuity liabilities transferred to OSERS and purchases of service.
For 2022, these amounts were $2,543 and $1,095, respectively.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complied, OSERS will present information for those years for which information is available.

Note: LB 147, Laws 2021 changed the reporting period for OSERS from a fiscal year end of August 31, to the calendar year ended December 31. However, generally accepted accounting principles require the information on the Schedule of Employer Contributions to be reported on the entity's fiscal year end which is still August 31, per State Statute 79-978(19).

OMAHA SCOOL EMPLOYEES' RETIREMENT SYSTEM

SCHEDULE OF CHANGES IN EMPLOYER AND NON-EMPLOYER CONTRIBUTIONS

Last 10 Fiscal Years Ending August 31

(Thousands of Dollars)

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Actuarially determined contribution	$ 68,991	66,756	62,803	61,631	62,637	57,674	37,906	34,614	34,225	35,032
Employer statutory	39,655	37,266	35,676	35,967	36,664	35,231	33,903	33,109	31,913	29,581
Employer additional	29,483	24,145	21,357	21,300	18,900	12,750	--	--	--	--
Non-employer (state)*	7,534	7,290	7,302	7,420	7,111	6,897	6,661	6,453	6,285	4,042
Total actual contributions	76,672	68,701	64,335	64,687	62,675	54,878	40,564	39,562	38,198	33,623
Annual contribution deficiency (excess)	$ (7,681)	(1,945)	(1,532)	(3,056)	(38)	2,796	(2,658)	(4,948)	(3,973)	1,409
Covered payroll	$ 401,451	377,207	360,891	364,154	371,440	356,676	345,231	333,166	323,078	313,946
Actual contributions as a percentage of covered payroll	19.10%	18.21%	17.83%	17.76%	16.87%	15.39%	11.75%	11.87%	11.82%	10.71%

Note: This schedule relates to both the employer (District) and non-employer contributing entities (State of Nebraska).

Note**:** LB 147, Laws 2021 changed the reporting period for OSERS from a fiscal year end of August 31, to the calendar year ended December 31. However, generally accepted accounting principles require the information on the Schedule of Employer Contributions to be reported on the entity's fiscal year end which is still August 31, per State Statute 79-978(19).

* Excludes transfer of monies from the Nebraska Public Employees Reitement System to fund the liabilities transferred to the system for the service annuity for retirees in the last fiscal year.

OMAHA SCOOL EMPLOYEES' RETIREMENT SYSTEM

SCHEDULE OF MONEY-WEIGHTED RATES OF RETURN

Last 10 Fiscal Years Ending August 31

(Thousands of Dollars)

2022	-7.44%
2021	23.70%
2020	7.71%
2019	2.17%
2018	7.45%
2017	9.92%
2016	1.69%
2015	-3.38%
2014	14.01%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complied, OSERS will present information for those years which information is available.

*OSERS revised its money-weighted rate of retun calculation. Therefore, this schedule will not agree to its fiscal year audit reports for 2021 and earlier.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

For the Last 10 Fiscal Years Ending August 31 (Thousands of Dollars)
(Unaudited)

OSERS is funded by statutory contribution rates for members, the District, and the State of Nebraska. If the statutory contribution rate is less than the actuarially determined contribution, the District will contribute the difference. The actuarially determined contributions in the schedule of employer contributions are calculated as of the valuation date that falls within the fiscal year in which contributions are reported.

The following actuarial methods and assumptions were used to determine the actuarially determined contribution reported for the most recent measurement date, August 31, 2022 (based on the January 1, 2022, actuarial valuation).

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed.
Remaining amortization period	Layered bases with the Legacy base amortized over a closed 30-year period beginning January 1, 2019. Subsequent bases established prior to January 1, 2022, are amortized over a closed 30-year period beginning on the valuation date. All bases established on or after January 1, 2022, are amortized over a closed 25-year period beginning on the valuation date.
Asset Valuation method	Market related smoothed value
Price inflation	2.70%
Salary increases, including price inflation	3.20 – 6.60%
Long-tern rate to return, net of Investment expense, including price inflation	7.40%
Cost-of-living adjustments	1.50% for those who became OSERS members prior to July 1, 2013 1.00% for those who became OSERS members on or after July 1, 2013 Medical COLA of $10 per month for each year retired (max $250/month), for those who became OSERS members prior to July 1, 2016

Changes of benefit and funding terms: The following changes to the plan provisions were made by the Nebraska Legislature and reflected in the valuation performed as of September 1 (January 1 starting in 2017) listed below:

2022: The 2021 session of the Nebraska Legislature enacted Legislative Bill 147 (LB 147), which modified the eligibility requirements to participate in the System. Employees who are contracted for less than 30 hours per week are eligible to participate in the System if they average more than 30 hours per week during any three calendar months of a fiscal year. No census data was received to allow quantification of the impact of LB 147 on the January 1, 2022, valuation.

2018: The 2017 session of the Nebraska Legislature enacted Legislative Bill 415 (LB 415), which changed the retirement provisions for members hired on or after July 1, 2018, to match the School Employees Retirement System of the State of Nebraska. Retirement eligibility for members hired on or after July 1, 2018, is set at the age 60 with 85 points (age plus service) or age 60 with five years of service. Benefits are unreduced at age 60 with 85 points. Early retirement eligibility is age 60 with five years of service. No medical COLA is provided for members hired on or after July 1, 2018.

The 2018 session of the Nebraska Legislature enacted Legislative Bill 1005 (LB 1005), which states that the School District must contribute an amount equal to or greater than the actuarially required contribution rate provided in the most recent valuation report.

2017: The 2016 session of the Nebraska Legislature enacted Legislative Bill 447 (LB 447), which changed the retirement provisions for members hired on or after July 1, 2016, to match the Schools Employees Retirement System of the State of Nebraska. Retirement eligibility for members hired on or after July 1, 2016, is set at 35 years of services, age 55 with 85 points (age plus service) or age 60 with five years of service. Benefits are unreduced with 35 years of service or at the age 55 with 85 points. Early retirement eligibility is age 60 with five years of service. No medical COLA is provided for members hired on or after July 1, 2016.

2013: The 2013 session of the Nebraska legislature enacted Legislative Bill 553 (LB 553), which increased the contribution rate of members from 9.3% of pay to 9.78% of pay. The District's contribution rate is equal to 101% of the employee contribution rate, so the District's contribution rate increased from 9.393% of pay to 9.878% of pay. The State's contribution rate was also increased permanently from 1% (plus $973,301) to 2% of payroll, effective July 2014. LB 553 also created a new benefit structure for members hired on or after July 1, 2013, with the same benefit structure as pre-July 1, 2013, hires except annual cost of living adjustments are the lesser of 1% or CPI, and final average compensation is defined as 1/60 of the total compensation received during the five fiscal years of highest compensation.

Changes in actuarial assumptions:

1/1/2022 valuation:

- The investment return assumption was lowered from 7.50% to 7.40%.
- The inflation assumption was lowered from 2.75% to 2.70%.
- The assumed interest rate credited on employee contributions was lowered from 2.75% to 2.7%.
- The general wage increase assumption was lowered from 3.25% to 3.20%.
- The mortality assumption was changed to the Pub-2010 General Members (Median) Mortality Tables projected with generational mortality improvements modeled using the NPERS projection scale. No generational mortality improvement is reflected for disabled members.
- Termination rates were modified for both certificated and classified employees.
- Retirement rates were modified for both certificated and classified employees.

- The probability of a vested member electing a refund upon termination was adjusted for both Certificated and Classified members and is now based on years of service.
- The active member marriage assumption was reduced from 100% to 85%.
- The salary increase assumption was changed to reflect the lower general wage inflation, and the merit salary scale was adjusted to reflect better observed experience.
- An explicit assumption for administrative expenses was adopted as a component of the actuarial contribution rate and was set to 0.24% of pay.
- The amortization period for future amortization bases was reduced from 30 to 25 years.

1/1/2021 valuation:

- Valuation salaries are imputed using each member's contribution amount during the prior year. For members who did not work a full year, their salaries are annualized using current salary rates.

1/1/2019 valuation:

The amortization of the Unfunded Actuarial Assumed Liability (UAAL) was changed to reset the legacy UAAL over a 30-year period beginning on January 1, 2019. New pieces of UAAL are also amortized over a 30-year period beginning on the valuation date.

1/1/2017 valuation:

- The investment return assumption was lowered from 8% to 7.5%.
- The inflation assumption was lowered from 3% to 2.75%.
- The assumed interest rate credited on employee contributions was lowered from 3% to 2.75%.
- The general wage increase assumption was lowered from 4% to 3.25%.
- The mortality assumption was changed to the RP-2014 Mortality Table, with a one-year set forward for males and a one-year age setback from females. Generational mortality improvements are modeled using the MP-2016 scale.
- Retirement rates were modified for both certificated and classified employees.
- The probability of electing a refund at termination was modified for classified employees.
- Termination rates for certificated employees were changed to be the same regardless of gender, and are purely service-based for both certificated and classified employees.
- The salary increase assumption was changed to a service-based assumption for both certificated and classified employees.
- The amortization of the UAAL was changed to a "layered" approach with new pieces of UAAL amortized over a 25-year period beginning on the valuation date, while the legacy UAAL continues to be amortized on its current schedule.
- The valuation date changed from September 1 to January 1.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

For the Last 10 Fiscal Years Ending August 31 (Thousands of Dollars)
(Unaudited)

9/1/2013 valuation:

- The one-year age set forward in mortality rates for active male employees was eliminated.
- Classified members' retirement rates were adjusted.
- Vested certificated members' assumption to elect a refund was adjusted at certain ages.
- The assumed interest rate credited on member contribution accounts was lowered from 7% to 3%.

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS
Mike Foley
State Auditor
Mike.Foley@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
auditors.nebraska.gov

OMAHA SCHOOL EMPLOYEES' RETIREMENT SYSTEM

INDEPENDENT AUDITOR'S 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*

To the Transition Board of Trustees
Omaha School Employees' Retirement System
Omaha, Nebraska

We have audited, 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, the financial statements of the Omaha School Employees' Retirement System (OSERS) as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the OSERS' basic financial statements, and have issued our report thereon dated June 20, 2023. The report was modified to emphasize that the financial statements present only the funds of OSERS.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered OSERS' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OSERS' internal control. Accordingly, we do not express an opinion on the effectiveness of OSERS' 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 and correct, 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 OSERS' financial statements will not be prevented, or detected and corrected, on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying management letter dated June 20, 2023, as Comment Number 1 ("Control Environment"), Comment Number 2 ("Peoplesoft Pension Module Unauthorized Change"), Comment Number 3 ("Financial Statement Adjustments"), and Comment Number 4 ("Benefit and Refund Processing Issues"), as items that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether OSERS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements. 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*.

Additional Items

We also noted certain additional items that we reported to management of OSERS in a separate letter dated June 20, 2023.

OSERS Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on OSERS' responses to the findings identified in our audit and described in the accompanying management letter. OSERS' responses were not subjected to other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OSERS' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the OSERS' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Zachary Wells

Lincoln, NE
June 20, 2023

Zachary Wells, CPA, CISA
Assistant Deputy Auditor

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@nebraska.gov
PO Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
auditors.nebraska.gov

June 20, 2023

To the Transition Board of Trustees
Omaha School Employees' Retirement System
Omaha, NE

Dear Board Members:

We have audited the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position of the Omaha School Employees' Retirement System (OSERS), as of and for the year ended December 31, 2022, 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, and we have issued our report thereon dated June 20, 2023. In connection with our engagement to audit the financial statements we considered the OSERS' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OSERS internal control. Accordingly, we do not express an opinion on the effectiveness of the OSERS internal control.

In connection with our engagement to audit the financial statements as described above, we noted certain internal control or compliance matters related to the activities of the OSERS or other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of OSERS management, are intended to improve internal control or result in other operating efficiencies.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be a material weakness.

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. We consider Comment Number 1 ("Control Environment"), Comment Number 2 ("PeopleSoft Pension Module Unauthorized Change"), Comment Number 3 ("Financial Statement Adjustments"), and Comment Number 4 ("Benefit and Refund Processing Issues") to be significant deficiencies.

Draft copies of this letter were furnished to the OSERS to provide management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this letter. The responses were not subjected to the other auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on them. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next audit.

The following are our comments and recommendations for the year ended December 31, 2022.

1. Control Environment

Several significant changes occurred during calendar year 2022 that negatively affected the control environment at OSERS. The most significant change was the retirement of two long time employees – the Retirement Benefits Manager in July 2022 and the Executive Director in September 2022 – who collectively provided 31 years of service to OSERS. In June 2022, prior to the retirement of the OSERS Benefit Manager, the Douglas County School District #0001 (District) contracted with the Nebraska Public Employees Retirement System (NPERS) to provide staff support to OSERS. One NPERS employee became a contractual OSERS employee in June 2022, and another was added in November 2022. The Board appointed the District Chief Financial Officer (CFO) as the OSERS Administrator in November 2022.

In addition to the OSERS staff changes, the District experienced accounting staff changes during the calendar year. Since the District accounting staff provides support to OSERS, these changes also affected the retirement system's control environment. Specifically, the District Controller was named interim CFO in June 2022, and the interim title was removed in August 2022. A new District Controller was hired in October 2022.

The OSERS Transition Board of Trustees scaled back its activities significantly, holding only two meetings during all of calendar year 2022. This, despite the statutory requirement in Neb. Rev. Stat. § 79-982(2)(c) (Cum. Supp. 2022) that requires the board of trustees to "supervise the affairs of the retirement system related to the administration of benefits and recommend to the board of education any changes in the administration of the retirement system essential to the actuarial requirements of the retirement system . . . ."

The "Professional Standards" promulgated by the American Institute of Certified Public Accountants (AICPA) defines internal control as a "process effected by those charged with governance, management, and other personnel that is designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations." One of the five components of internal control is the control environment, which sets the tone of an organization and encompasses the following elements: a) communication and enforcement of integrity and ethical values; b) commitment to competence; c) participation of those charged with governance; d) management's philosophy and operating style; e) organizational structure; f) assignment of authority and responsibility; and g) human resources policies and practices.

During the audit, the Auditor of Public Accounts (APA) noted the following concerns, which appear to have been caused by the staff changes discussed above:

- There were significant delays in obtaining information throughout the audit.
- Findings noted in the prior audit were not appropriately addressed or resolved.
- Several significant errors were noted throughout the course of the audit.

<u>Delays</u>
The following table identifies specific information that OSERS failed to provide within 21 days of request by the APA:

Item Description	Request Date	Received Date	# of days
Membership Files Used by Actuary in Valuation	3/1/2023	5/5/2023	65
Accrual basis financial statements (first version received 3/17/23; final version 5/16/23)	3/17/2023	5/16/2023	60
Support that the State service annuity reduction factors are proper and in compliance with Neb. Rev. Stat. § 79-933(2) (Reissue 2014)	3/10/2023	4/24/2023	45
Support that the optional formula annuity factors (10 year certain, 50% joint, 75% joint, 100% Joint, and 100% pop-up) comply with subsection (2) and (3) of Neb. Rev. Stat. § 79-978 (Cum. Supp. 2022).	3/10/2023	4/24/2023	45
Required Notes to the financial statements	3/31/2023	5/8/2023	38
Update of Cash Flow Memo, Administrative Expense Memo, Investment Memo, Benefit Memo, Retirement Processing Memo, Contributions Memo, Payroll Process Memo	2/7/2023	3/16/2023	37
Questions related to OSERS Board Minutes from October 2021 - Current	2/27/2023	4/3/2023	35
GASB 67 reports	2/7/2023	3/10/2023	31
The District monthly Buy-In Detail reports	2/7/2023	3/9/2023	30
Listing of all new retirees in calendar year 2022	2/7/2023	3/7/2023	28
Member files sent to PBI Research Services and results returned from these death audits in calendar year 2022	2/7/2023	3/7/2023	28
Bank Reconciliation as of 12/31/2022	2/7/2023	3/7/2023	28
Support for the State 2% contributions	3/7/2023	4/3/2023	27
Fee charged for all purpose Buy-In: When did the fee go into effect, did the board of education approve, what authority did OSERS have to establish the fee?	3/7/2023	4/3/2023	27
During our prior audit, it was noted that OSERS did not use the correct Consumer Price Index (CPI) information when determining the cost-of-living adjustments (COLA) applied on 1/3/2016. Did OSERS make any adjustments to benefit amounts in CY22 for this error?	3/7/2023	4/3/2023	27
During our prior audit, we noted that OSERS was not applying COLA to the State Service Annuity portion of member's benefits as outlined by Neb. Rev. Stat § 79-9,103(8) (Supp. 2021). Have the COLA procedures been updated to include the State Service Annuity? Have there been any adjustments to member benefits to correct for missed COLA increases?	3/7/2023	4/3/2023	27
Labor contracts for six employees. Need contracts for first year of employment and 2004-2005.	3/10/2023	4/6/2023	27
Management's Discussion & Analysis	3/31/2023	4/24/2023	24
Questions on benefit calculation for one member: 1) Why is an adjustment of $289 being made to the member's 2019-2020 wages? 2) Why is the gross benefit only $2,895 when it was calculated to be $2,909?	3/10/2023	4/3/2023	24
Question on benefit calculation for a second member: Why were the 2022 earnings not capped at 108%?	3/10/2023	4/3/2023	24
Internal control questions on OSERS Transition Board of Trustees' review: 1) Why did the Board's role change? 2) What are the Board's current duties? 3) Were any other controls implemented after the Board stopped receiving details? 4) what is going to happen with incorrect refund payments? 5) How are refund reports reviewed after the fact? Provide documentation. 6) How are benefit reports reviewed after the fact? Provide documentation.	4/11/2023	Response to first two were not provided	N/A
What is the Service Credit (SC) basis for non-negotiated employees prior to 2005?	4/6/2023	Not provided	N/A
Questions on SC calculation for one member.	4/14/2023	Not provided	N/A

Neb. Rev. Stat § 84-305(2) (Cum. Supp. 2022) requires public entities to respond to the APA's request for information or records within three business days of such request and to provide the items requested "as soon as is practicable and without delay" – and, even in cases of "significant difficulty" or an unusually extensive request, no later than three calendar weeks thereafter, as follows:

> *Upon receipt of a written request by the Auditor of Public Accounts for access to any information or records, <u>the public entity shall provide to the auditor as soon as is practicable and without delay, but not more than three business days after actual receipt of the request</u>, either (a) the requested materials or (b)(i) if there is a legal basis for refusal to comply with the request, a written denial of the request together with the information specified in subsection (1) of this section or (ii) if the entire request cannot with reasonable good faith efforts be fulfilled within three business days after actual receipt of the request due to the significant difficulty or the extensiveness of the request, a written explanation, including the earliest practicable date for fulfilling the request, and an opportunity for the auditor to modify or prioritize the items within the request. <u>No delay due to the significant difficulty or the extensiveness of any</u>*

request for access to information or records shall exceed three calendar weeks after actual receipt of such request by any public entity. The three business days shall be computed by excluding the day the request is received, after which the designated period of time begins to run. Business day does not include a Saturday, a Sunday, or a day during which the offices of the custodian of the public records are closed.

(Emphasis added.)

Prior Findings

The following findings were identified in our calendar year 2021 audit, and were not addressed or resolved by OSERS:

Issue	Description
Incorrect COLA	The APA determined the incorrect CPI was recorded in the system for members who retired between September 2014 and July 2015. OSERS failed to follow up on this prior year finding to determine if adjustments to member benefit payments are needed.
Medical COLA	The OSERS methodology to calculate the medical COLA for members was not accurate because some members did not receive the full $250 medical COLA due to an error in the Peoplesoft application. OSERS failed to follow up on this prior year finding to determine whether adjustments to member benefit payments are needed.
No COLA for State Service Annuity	The APA found that OSERS failed to apply the annual COLA to the State service annuity portion of the members' benefits. State statute states explicitly that COLA amounts shall be made for "any" annuity payment. OSERS failed to follow up on this prior year finding to determine whether adjustments to member benefit payments are needed.
Service Annuity Deferred	OSERS practice was to defer the State service annuity portion of a member's benefit payment until the member's 60th birthday but failed to provide statutory support for this deferral. OSERS failed to follow up on this prior year finding to determine whether adjustments to member benefit payments are needed.
Final Average Compensation	Not included in the prior audit management letter, but communicated to OSERS separately, Rule and Regulation Policy 10-003.01 defines the method to determine the final average compensation used in a member's benefit calculation. That administrative definition does not agree to the statutory definition, which states that the final average compensation should be determined by using earnings reported for each fiscal year (September - August). Although the current practice of OSERS follows the statute, the administrative definition in the rules and regulations should be corrected.
Salary Capping	Similarly, statutes require an 8% cap to be applied to the five plan years preceding the effective retirement date for members who retire on or after July 1, 2016. The formula in OSERS' rules and regulations is different from that found in State statute, which was communicated to OSERS separately from the management letter in the prior audit. Instead of changing the rules and regulations to conform to the statutes, OSERS changed its methodology to conform to the calculation defined in the rules and regulations, which was incorrect.

Additional Errors

The remainder of this letter will identify certain errors related to system upgrades, accounting errors, errors in benefit calculations, inaccurate refunds, and inaccurate calculations for purchases of service.

Good internal controls require procedures and records to produce reliable financial information. Without such procedures and records, there is an increased risk for inaccurate financial reporting.

We consider this finding to be a significant deficiency.

> We recommend the Board review the staffing situation as it relates to OSERS and ensure there are enough knowledgeable staff and resources to afford the production of reliable financial reporting.

Management Response: OSERS staff departures have been a significant challenge with the loss of extensive historical knowledge of OSERS operations. Additional full-time staff have been recruited to provide sufficient capacity for daily administration of the retirement plan. NPERS employees will no longer be providing on-going daily support to OSERS and will only be working with OSERS staff on tasks related to the transition of OSERS management to NPERS in September 2024.

OSERS and District staff regrets that information was not provided to the Nebraska Auditor of Public Accounts in a timely manner and in compliance with state statute. OSERS and District staff will review internal processes for responding to audit requests and address issues that caused the delays in responses in preparation for future audits.

The Transition Trustees will resume meeting quarterly to receive regular updates on OSERS operations and the transition of management of the retirement system to NPERS.

Management has begun developing corrective actions for the prior year findings and will implement them by the end of the calendar year.

2. PeopleSoft Pension Module Unauthorized Change

The District utilizes a PeopleSoft application for its accounting and payroll functions, and OSERS uses the same application for its pension function. OSERS initiates a process manually to move pension contributions, compensation, and service credit information from the payroll application to the pension application, which updates the member accounts. It is during this process that regular interest is also posted to member accounts.

After issues arose during this process in late 2022, OSERS staff requested a system change to address those problems. The system change was implemented in late January 2023 and included unauthorized changes in the method to calculate and post interest to member accounts. The changes were tested prior to implementation by a NPERS employee, who was working under a contract with the District to assist with the transition of the management from OSERS to NPERS. The employee failed to identify the interest error during the testing.

There were three separate issues related to the calculation of interest. First, the interest calculation changes were made retroactive, dating back to each member's first contribution. This was verified by reviewing the December 31, 2021, balances of the members tested in the prior year to determine the documented balances had changed. Second, the method to calculate the interest was incorrect. Per State statute, interest is supposed to be calculated based on the member's account balance at the end of the prior fiscal year (August 31). After the unauthorized change, the interest was calculated on the balance at the end of each prior month. Finally, the interest rate used in the calculation was incorrect. The interest rate is supposed to change once annually, effective September 1 of each year. However, the unauthorized change to the system caused the September 1, 2022, interest rate to be used for the entire calendar year 2022.

For 24 of 25 member accounts tested in calendar year 2022, the unauthorized interest change resulted in inaccurate interest calculations or account balances on December 31, 2022. The table below shows the variances between both the interest calculations and the account balances for all 25 members selected for testing:

Member	OSERS Interest for Month Tested	APA Calculated Interest for Month Tested	Variance	OSERS Balance at 12/31/2022	Corrected Balance at 12/31/2022	Variance
#1	$ 7.32	$ 0.00	**$ 7.32**	$ 4,782.21	$ 4,733.01	**$ 49.20**
#2	$ 354.08	$ 6.80	**$ 347.28**	$ 131,673.52	$ 128,780.63	**$ 2,892.89**
#3	$ 149.25	$ 2.85	**$ 146.40**	$ 56,238.58	$ 55,128.89	**$ 1,109.69**
#4	$ 4.02	$ 0.00	**$ 4.02**	$ 1,976.53	$ 1,968.35	**$ 8.18**
#5	$ 34.82	$ 34.17	**$ 0.65**	$ 14,499.65	$ 14,265.36	**$ 234.29**
#6	$ 120.22	$ 112.95	**$ 7.27**	$ 42,515.86	$ 41,736.99	**$ 778.87**
#7	$ 0.09	$ 0.09	**$ 0.00**	$ 5,251.11	$ 5,251.11	**$ 0.00**
#8	$ 0.00	$ 0.00	**$ 0.00**	$ 1,123.05	$ 1,117.56	**$ 5.49**
#9	$ 79.65	$ 1.28	**$ 78.37**	$ 30,072.61	$ 29,506.82	**$ 565.79**
#10	$ 454.76	$ 8.76	**$ 446.00**	$ 167,781.93	$ 164,345.63	**$ 3,436.30**
#11	$ 390.03	$ 7.64	**$ 382.39**	$ 145,431.61	$ 141,976.34	**$ 3,455.27**

Member	OSERS Interest for Month Tested	APA Calculated Interest for Month Tested	Variance	OSERS Balance at 12/31/2022	Corrected Balance at 12/31/2022	Variance
#12	$ 179.44	$ 3.34	**$ 176.10**	$ 68,226.39	$ 66,966.58	**$ 1,259.81**
#13	$ 90.11	$ 1.70	**$ 88.41**	$ 37,555.18	$ 36,826.59	**$ 728.59**
#14	$ 16.87	$ 12.87	**$ 4.00**	$ 6,302.21	$ 6,227.25	**$ 74.96**
#15	$ 250.31	$ 4.89	**$ 245.42**	$ 93,732.04	$ 91,642.96	**$ 2,089.08**
#16	$ 42.36	$ 0.73	**$ 41.63**	$ 16,191.94	$ 15,871.47	**$ 320.47**
#17	$ 3.24	$ 0.00	**$ 3.24**	$ 2,723.97	$ 2,702.39	**$ 21.58**
#18	$ 33.76	$ 29.98	**$ 3.78**	$ 11,906.85	$ 11,685.43	**$ 221.42**
#19	$ 287.91	$ 5.21	**$ 282.70**	$ 103,670.07	$ 101,623.19	**$ 2,046.88**
#20	$ 294.55	$ 5.37	**$ 289.18**	$ 105,681.26	$ 103,641.74	**$ 2,039.52**
#21	$ 3.91	$ 0.00	**$ 3.91**	$ 1,882.24	$ 1,874.00	**$ 8.24**
#22	$ 151.33	$ 142.05	**$ 9.28**	$ 52,577.80	$ 51,561.72	**$ 1,016.08**
#23	$ 384.08	$ 7.35	**$ 376.73**	$ 140,545.37	$ 137,471.61	**$ 3,073.76**
#24	$ 85.85	$ 1.52	**$ 84.33**	$ 34,820.33	$ 34,135.54	**$ 684.79**
#25	$ 97.50	$ 1.57	**$ 95.93**	$ 36,723.35	$ 36,059.52	**$ 663.83**
Total	**$ 3,515.46**	**$ 391.12**	**$ 3,124.34**	**$ 1,313,885.66**	**$ 1,287,100.68**	**$ 26,784.98**

The APA determined that there were over 9,000 active and inactive member accounts reported by the actuary at December 31, 2022. In a comparison of the incorrect December 31 balances compared to the corrected December 31 balances, the incorrect balances were approximately $8.4 million higher than the corrected balances. The incorrect balances would have been due to the incorrect interest calculations on member accounts.

Neb. Rev. Stat. § 79-978 (Cum. Supp. 2022) provides the following definitional language for accumulated contributions and regular interest:

> *(1) Accumulated contributions means the sum of amounts contributed by a member of the system together with regular interest credited thereon;*
>
> * * * *
>
> *(30) <u>Regular interest means interest (a) on the total contributions of the member prior to the close of the last preceding fiscal year</u>, (b) compounded annually, and (c)(i) beginning September 1, 2016, at a rate equal to the daily treasury yield curve for one-year treasury securities, as published by the Secretary of the Treasury of the United States, that applies on September 1 of each year and (ii) prior to September 1, 2016, at rates to be determined annually by the board, which shall have the sole, absolute, and final discretionary authority to make such determination, except that the rate for any given year in no event shall exceed the actual percentage of net earnings of the system during the last preceding fiscal year;*

(Emphasis added.) The APA identified the problem with the interest calculations and communicated the problem to OSERS via email on March 8, 2023. On March 17, 2023, OSERS acknowledged the APA's findings and agreed that there was an issue. By that time, though, OSERS had issued refund payments to members in February and March 2023 based on incorrect, and in most cases, overstated account balances. Members may request a refund of their accumulated contributions and interest upon termination of employment.

On May 1, 2023, OSERS modified the system to correct the interest calculations and account balances. Therefore, most member account balances were corrected, except those who had received a refund during February and March 2023.

The general ledger information provided by OSERS showed a total of $2,674,245 in refund and interest payments in February and March 2023. However, we learned later that $1,680,060 of those payments were recorded as duplicate expenses – meaning the refunds were recorded twice in the accounting system and were overstated. The duplicate expenses were not paid to members.

The following table contains a list of the known duplicate refund entries recorded in February and March 2023:

February and March 2023 Duplicate Expenses							
Ref #	**Refund Amount**	**Ref #**	**Refund Amount**	**Ref #**	**Refund Amount**	**Ref #**	**Refund Amount**
11554	$ 98,728.33	11552	$ 37,933.31	11603	$ 15,303.05	11600	$ 5,642.94
11572	$ 77,077.22	11568	$ 36,502.99	11574	$ 14,824.20	11593	$ 5,461.62
11569	$ 74,027.12	11614	$ 36,185.42	11607	$ 12,697.23	11570	$ 4,980.34
11562	$ 72,355.26	11573	$ 35,623.78	11604	$ 12,446.86	11550	$ 4,765.78
11586	$ 72,290.08	11601	$ 34,254.24	11555	$ 12,074.70	11560	$ 4,723.96
11566	$ 68,385.54	11592	$ 33,867.64	11608	$ 11,336.90	11582	$ 4,514.96
11602	$ 67,129.35	11590	$ 27,978.10	11594	$ 10,132.82	11609	$ 4,364.58
11598	$ 56,183.64	11589	$ 26,170.35	11551	$ 10,106.26	11558	$ 4,195.86
11615	$ 55,997.94	11559	$ 24,427.51	11571	$ 9,666.24	11588	$ 4,090.34
11580	$ 51,128.92	11597	$ 23,231.82	11610	$ 9,516.46	11561	$ 3,761.74
11605	$ 48,650.37	11585	$ 23,141.26	11595	$ 9,425.11	11567	$ 3,221.01
11583	$ 44,084.91	11578	$ 21,781.43	11553	$ 9,071.03	11584	$ 2,699.64
11611	$ 43,905.44	11599	$ 21,573.27	11556	$ 8,994.89	11565	$ 1,992.15
11577	$ 42,007.28	11616	$ 19,619.12	11563	$ 7,493.15	11591	$ 1,941.70
11557	$ 41,393.75	11576	$ 19,420.31	11587	$ 6,342.13	11564	$ 1,740.94
11613	$ 41,280.25	11612	$ 17,680.38	11579	$ 6,317.27	11596	$ 626.77
11581	$ 39,988.26	11606	$ 15,936.95	11575	$ 5,646.07		
Total			**$1,680,060.24**				

The above refunds were recorded previously in January 2023. The reference numbers in the table identify the corresponding payment voucher in the accounting system.

As a result of the issues noted, the APA selected 11 refund payments, made from February and March 2023, for additional testing. The following table details the overpayments identified for 7 of those 11 payments:

Member	APA Calculated Balance	Actual Refund Amount	Variance	Payment Date
1	$ 104,910.00	$ 107,076.22	$ 2,166.22	2/13/2023
2	$ 76,334.04	$ 77,891.08	$ 1,557.04	2/9/2023
3	$ 9,732.36	$ 9,937.37	$ 205.01	2/13/2023
4	$ 68,414.83	$ 69,776.23	$ 1,361.40	2/13/2023
5	$ 65,334.69	$ 66,683.84	$ 1,349.15	2/13/2023
6	$ 47,284.87	$ 48,240.81	$ 955.94	2/9/2023
7	$ 21,557.97	$ 21,976.40	$ 418.43	2/13/2023
Totals	**$ 393,568.76**	**$ 401,581.95**	**$ 8,013.19**	

In all, the APA determined there were 45 refund payments to members, totaling $873,089, made during February or March 2023, that were likely incorrect. Based on the errors for the seven members tested above, the APA estimates the total overpayments for the 45 refund payments to be just under $18,000.

The APA also found a refund payment in March 2023 for $121,096 that was reversed in the accounting system and not paid to the member. In April 2023, OSERS began to manually calculate refund payments and incorrectly calculated the refund to be $119,882, which included $343 for April 2023 interest. The member was not due the interest for April because the refund was paid out in that month.

The remaining three refund payments tested were not overpaid but were the duplicate accounting entries as described above. The sample was chosen from the February and March 2023 refund payments. The actual date of the original refund payments was January 6, 2023. These refunds were supposed to be processed in December 2022; however, they were not processed until January 2023. Because the payments did not occur in December 2022, all three members were owed an additional month of interest.

Member #	APA Calculated Balance	Actual Refund Amount	Variance
9	$ 99,014.60	$ 98,728.33	$ (286.27)
10	$ 48,791.43	$ 48,650.37	$ (141.06)
11	$ 24,498.34	$ 24,427.51	$ (70.83)
Totals	**$ 172,304.37**	**$ 171,806.21**	**$ (498.16)**

Neb. Rev. Stat. § 79-992(1) (Cum. Supp. 2022) contains the following:

> *Upon termination of employment, except on account of retirement, a member shall be entitled to receive refunds as follows: (a) An amount equal to the accumulated contributions to the retirement system by the member; and (b) any contributions made to a previously existing system which were refundable under the terms of that system.*

Additionally, the APA tested eight refunds payable, totaling $833,940. For all eight refunds, OSERS failed to apply the December 2022 interest to the member accounts prior to issuing the refund, resulting in total underpayments of $2,419. In addition, this resulted also in an understated payable accrual.

The APA also tested five payments in 2023 that were not included in the refunds payable, determining that one of those payments should have been a payable on December 31, 2022. The member terminated on July 31, 2022, and submitted a refund application on November 21, 2022. Therefore, the refund of $83,736 would have become payable on December 16, 2022, but it was not paid until January 13, 2023.

The Rules and Regulations of the District Board of Education on the Operating and Management of OSERS (Rules and Regulations) were adopted on January 20, 2022. The OSERS Rules and Regulations contain a provision that restricts the timing of refund distributions. Chapter 4 ("Refund and Termination Benefit Procedures"), Section 003.04(a), ("Timing of Distribution"), states the following:

> *Distribution of a refund to a member shall not occur before the later of (1) four (4) calendar months after the member's termination date and (2) twenty (20) business days after OSERS receives a completed and valid application for a refund.*

Good internal controls require procedures to ensure that member account information is updated and maintained accurately.

Without such procedures, there is an increased risk of incorrect benefit payments or refunds, as well as non-compliance with State statute.

We consider this finding to be a significant deficiency.

> We recommend OSERS implement procedures to ensure that, prior to implementation, changes to the PeopleSoft application are tested adequately by staff knowledgeable of the statutory requirements. We also recommend OSERS perform the following procedures:

1) Review the refund payments made on January 6, 2023, to determine which members are owed an additional month of interest.
2) Calculate the number of overpayments to members in February and March 2023 and begin the process of recouping the overpaid amounts.
3) Review manual refund payments processed in April 2023 and recover any interest that was overpaid.
4) Ensure refunds payable amounts are accurate.

Management Response: OSERS and District staff have reviewed procedures for reviewing and implementing changes to the pension module in PeopleSoft to resolve system issues to prevent any future unintended changes. NPERS employees will no longer be providing on-going daily support to OSERS and will not be involved in system changes moving forward. An outside vendor with extensive PeopleSoft pension module expertise has also been retained to assist with future system issues that may arise.

All refund payments made from January to April 2023 will be reviewed, and additional distributions will be made for underpayments and overpayments recouped.

3. Financial Statement Adjustments

Similar to the finding noted in the prior audit, the APA identified several financial statement errors and other account errors that are shown in the tables below.

Financial Statement Errors
OSERS made the following entries to correct financial statement errors:

Account Number	Account Description	Debit	Credit
20080	Refunds and Accounts Payable	$ -	$ 5,267,441
20080	Other Investments Payable	$ 5,267,441	$ -
OSERS records its liability activity entirely into account 20080, "Accounts Payable Liabilities." However, for financial statement presentation, the amounts within the account are separated into various categories, including "Other Investments Payable" and "Refunds and Accounts Payable." In the original version of its financial statements, OSERS included the refund payable amount as "Other Investments Payable," which should include only investments payable reported by the custodial bank. Upon discussion with staff, the refund payable amount was removed from the "Other Investments Payable" and included in "Refunds and Accounts Payable."			
16270	Misc Accounts Receivable	$ 494,646	$ -
13295	Private Equity K9F8 (Investment)	$ -	$ 396,511
20080	Accounts Payable Liabilities	$ -	$ 98,135
OSERS did not accurately calculate the investment receivables and payables on December 31, 2022, from the custodial bank statements.			
20080	Accounts Payable Liabilities	$ 693,388	$ -
63999	Unrealized Gain/Loss-Perm Invest	$ -	$ 693,388
OSERS recorded investment manager fees inaccurately as a payable. The Nebraska Investment Council accumulates the total investment manager fees and provides the information to OSERS. Some of the fees are reported as fees on the custodial bank statements, but others are not. Therefore, the entry is to reclassify the investment manager fees from account 63999, "Unrealized Gains/Loss."			
53192	Portfolio Manager Fees	$ 382,672	$ -
63999	Unrealized Gain/Loss-Perm Invest	$ -	$ 382,672
OSERS failed to record all investment expenses that were reported on the custodial bank statements. The final OSERS investment expense included only the investment manager fees and not the other fees reported by the custodial bank. These fees include Nebraska Investment Council fees, custody expenses, foreign income taxes, and other expenses. This entry is to accumulate the remaining investment fees to correct the investment expense.			

Account Number	Account Description	Debit		Credit	
41427	Securities Lending Income	$	-	$	154,574
41425	Investment Income	$	126,101	$	-
56250	Securities Lending Expense	$	28,473	$	-
OSERS reversed a prior year entry related to the securities lending activity that did not require a reversal. The entry to record the securities lending activity is not an accrual; rather, it is a reclassification from "Investment Income" to "Securities Lending Income and Expense" and does not need to be reversed.					

Investment Footnote Errors

The OSERS investment footnotes were not accurately reported. Similar issues were discussed with OSERS in the prior audit. The following issues were noted:

> **Derivative Financial Instruments:** Errors were made in the accumulation of the fair value balances and notional amounts of derivative instruments outstanding on December 31, 2022. The largest variance was that the notional value was overstated by $6,359,000.
>
> **Foreign Currency Risk:** Errors were made in the accumulation of amounts for the foreign currency risk footnote. The largest variance was and understatement of $532,000.
>
> **Fair Value Hierarchy:** As described in the investment footnote, there are three levels for measuring fair value. Level 1 is based on quoted prices in active markets for identical assets that the State has the ability to access at the measurement date. Level 2 are inputs other than quoted prices within Level 1. Level 3 inputs are unobservable inputs for the asset. Certain assets that are measured at fair value using the net asset value per share are not categorized into this hierarchy. OSERS improperly reported $1.8 million of private equity assets as being measured using net asset value rather than the correct hierarchy of Level 1.

OSERS corrected all footnote issues after the APA brought them to their attention.

Incorrect Journal Entries and Negative Records

In our testing of OSERS journal entries, 1 of 8 entries tested was not coded properly. The entry in question was made up of two journal ID's that were both related to year-end cash corrections. The APA tested the two documents together because they both attempted to correct the same four original transactions. Three of the four original transactions were not recorded properly in the accounting system.

The tables below explain the issues noted with the three original transactions:

Entry #1:

Account	OSERS Entries	Correct Entries	Difference
Cash	$ (4,846.74)	$ (4,846.74)	$ -
State Tax Recoverable	$ -	$ 230.79	$ (230.79)
Refunds Paid	$ 4,846.74	$ 4,615.95	$ 230.79
OSERS created journal entries to correct the tax withholdings on a member's refund. In its attempt to correct the issue in the accounting system, OSERS made 38 separate transactions but failed to correct the transaction. The member requested a total of 55% to be withheld, but OSERS originally processed the refund withholding only 25%. In its calculation to adjust the tax withholdings, OSERS calculated $230.79 more than was required. That extra amount was remitted to the Nebraska Department of Revenue (NDOR). As a result, the "Refunds Paid" amount is overstated. OSERS should also record an accounts receivable for the overpayment to NDOR.			

Entry #2:

Account	OSERS Entries	Correct Entries	Difference
Cash	$ (36,638.84)	$ (31,687.64)	$ (4,951.20)
State Tax Recoverable	$ 1,320.32	$ -	$ 1,320.32
Misc. Account Receivable	$ -	$ 5,281.27	$ (5,281.27)
Federal Withholding Payable	$ 5,232.25	$ -	$ 5,232.25
State Withholding Payable	$ (1,271.29)	$ -	$ (1,271.29)
Refunds Paid	$ 31,357.57	$ 26,406.37	$ 4,951.20
The original refund payment was processed in February 2021. In November 2021, OSERS followed up with the member regarding the uncashed check. The member responded that she had requested a rollover. OSERS had to cancel the check and reprocess the transaction, as requested by the member. Because OSERS withheld and remitted taxes on the payment, those amounts needed to be recouped and adjusted. OSERS had recouped the State taxes but not the Federal taxes at the time of our testing. Again, after 114 separate entries to correct the original payment, the entry was still inaccurate. The result was that cash payment for the member was overstated, the tax withholding liabilities were incorrect, and the "Refunds Paid" account was overstated. OSERS also did not make the correct entries to the receivable accounts.			

Entry #3:

Account	OSERS Entries	Correct Entries	Difference
Cash	$ (19,911.75)	$ (19,911.75)	$ -
Accounts Payable Liabilities	$ 17,522.49	$ -	$ 17,522.49
Refunds Paid	$ 2,389.26	$ 17,490.99	$ (15,101.73)
This entry attempted to correct the Federal tax withholdings on eight different original vouchers. In November 2021, OSERS had to cancel vouchers that were issued prior to Board approval. OSERS attempted to reverse the original voucher and create new ones. However, there is a limitation in the accounting system that will not reverse the Federal tax withholdings. In its attempt to correct the accounting system, OSERS ended up overstating the accounts payable liabilities and understating the "Refunds Paid" expense account. The variances do not net to zero in this example because the original "Refunds Paid" expense entry for $2,420.76 was not included.			

The APA also reviewed six negative entry transactions and noted issues similar to those noted above. The following tables explain the issues related to these transactions:

Entry #4:

Account	OSERS Entries	Correct Entries	Difference
Cash	$ (6,524.81)	$ (6,524.81)	$ -
Revenue	$ (6,524.81)	$ -	$ (6,524.81)
Refunds Paid	$ 13,049.62	$ 6,524.81	$ 6,524.81
The negative entry was to correct a rollover payment that was apparently made to the wrong company. The company sent the payment back to OSERS, which recorded the receipt of the funds as a debit to cash and a credit to a revenue account. This was incorrect. When the new payment was processed, it created a duplicate expense because OSERS incorrectly recorded the receipt of funds as a revenue instead of eliminating the original expense.			

Entry #5:

Account	OSERS Entries	Correct Entries	Difference
Cash	$ (19,475.58)	$ (19,475.58)	$ -
Accounts Payable Liabilities	$ (3,895.12)	$ -	$ (3,895.12)
Refunds Paid	$ 23,370.70	$ 19,475.58	$ 3,895.12
The original voucher was to distribute the balance of a deceased member's account to his estate. In July 2022, the estate reported that it did not receive the check. The payment had to be reissued. The second payment also included Federal withholdings, but that amount was already remitted with the original payment. Therefore, the second payment resulted in an overstatement of the liability and the expense.			

As noted in Comment and Recommendation #1 ("Control Environment") herein, the Accounting and Finance officer for the District, which is responsible for the preparation of the OSERS financial statements, experienced staff changes among key employees. Specifically, the Controller from the prior year became the CFO at the District and was also named the OSERS Executive Director. The District hired a new Controller in October 2022.

Good internal controls require procedures to ensure that financial statements and accounting transactions are materially correct.

Without such procedures, there in an increased risk for misstated financial statements.

We consider this finding to be a significant deficiency.

> We recommend the District implement procedures to ensure the accurate presentation of the financial statements and all accounting entries.

Management Response: Processes for financial statement and footnote preparation and presentation will be reviewed to address the errors noted. The process to record corrections related to member refunds in PeopleSoft will also be reviewed and updated to address the errors noted.

4. <u>Benefit and Refund Processing Issues</u>

The APA tested 10 new retirees' benefit payments and 25 ongoing member benefit payments. We noted several issues during our testing, as described below. All of the issues are similar to those noted in the prior year.

<u>Actuarially Determined Reduction Factors</u>
OSERS used actuarially determined reduction factors in the calculation of members' formula and service annuities. OSERS staff entered these factors into the accounting system, which is used to calculate benefit amounts. Prior to August 6, 2022, OSERS failed to maintain documentation to show that the factors came from an actuary and complied with State statute. On August 6, 2022, the actuary provided a new set of reduction factors; however, OSERS failed to integrate these new factors into the benefit calculations, continuing instead to use the old, undocumented factors.

The option annuity factor (formula annuity) is a reduction to the monthly benefit that results when a member chooses an optional payment other than the normal form, which is paid at 100%. The normal form is an annuity payable during the remainder of the member's life or until a minimum of 60 monthly payments have been made. The reduction factors are also used for early retirement calculations.

The four accounts with a reduction are detailed in the table below:

Final Average Monthly Compensation	Formula Annuity					Service Annuity					Total Annuity
	Formula Annuity Service Years	Factor Set By Law	Reduction Factor	Option Annuity Factor	Formula Annuity	Service Years	State Service Annuity	St Service Annuity Reduction	Option Annuity Factor	Service Annuity	
$ 1,634.44	15	2%	99%	0.9820	$ 477.90	15	$3.50	73.56%	0.982	$ 37.92	$ 515.82
$ 5,717.17	22	2%	100%	0.9797	$ 2,464.49	22	$3.50	81.34%	0.9797	$ 61.36	$ 2,525.85
$ 4,762.59	12.6	2%	100%	0.9772	$ 1,172.81	12.6	$3.50	90.108%	0.9772	$ 38.83	$ 1,211.64
$ 10,051.94	32.8	2%	100%	0.9148	$ 6,032.26	33	$3.50	100%	0.9148	$ 105.66	$ 6,137.92

It should be noted that the first three of the above accounts were calculated prior to August 6, 2022, so the factors were not documented. The fourth account was a calculation performed after August 6, 2022, and did not agree to the option annuity factors provided by the actuary.

Neb. Rev. Stat. § 79-9,101 (Reissue 2014) allows a member to select an actuarially equivalent annuity.

Neb. Rev. Stat. § 79-978(2) (Cum. Supp. 2022) provides the following definition for "actuarial equivalent":

> *Actuarial equivalent means the equality in value of the retirement allowance for early retirement or the retirement allowance for an optional form of annuity, or both, with the normal form of the annuity to be paid, as determined by the application of the appropriate actuarial table, except that use of such actuarial tables shall not effect a reduction in benefits accrued prior to September 1, 1985, as determined by the actuarial tables in use prior to such date[.]*

Subsection (3) of that same statue defines "actuarial tables" as follows, in relevant part:

> *Actuarial tables means:*
>
> *(a) For determining the actuarial equivalent of any annuities other than joint and survivorship annuities:*
>
> *(i) For members hired before July 1, 2018, a unisex mortality table using twenty-five percent of the male mortality and seventy-five percent of the female mortality from the 1994 Group Annuity Mortality Table with a One Year Setback and using an interest rate of eight percent compounded annually;*
>
> * * * *
>
> *(b) For joint and survivorship annuities:*
>
> *(i) For members hired before July 1, 2018, a unisex retiree mortality table using sixty-five percent of the male mortality and thirty-five percent of the female mortality from the 1994 Group Annuity Mortality Table with a One Year Setback and using an interest rate of eight percent compounded annually and a unisex joint annuitant mortality table using thirty-five percent of the male mortality and sixty-five percent of the female mortality from the 1994 Group Annuity Mortality Table with a One Year Setback and using an interest rate of eight percent compounded annually[.]*

Benefit Calculation Issues

The APA also noted the following issues related to the calculation of the benefit:

Capping Issues

OSERS failed to cap one member's compensation in accordance with Neb. Rev. Stat. § 79-9,100(4)(b) (Cum. Supp. 2022), which requires an 8% cap to be applied to the five plan years preceding the members' effective retirement date.

OSERS included the member's fiscal year 2022 compensation of $20,114 in its calculation of the final average compensation. However, this was 11.5% more than the prior year compensation of $18,043. Compensation should have been capped at $19,487, which would have reduced the benefit by $5 per month.

Neb. Rev. Stat. § 79-9,100(4) (Cum. Supp. 2022) defines the salary-capping period as follows:

> *(a) In the determination of compensation for members whose retirement date is on or after July 1, 2016, that part of a member's compensation for the plan year which exceeds the member's compensation for the preceding plan year by more than eight percent during the capping period shall be excluded. . . .*
>
> *(b) For purposes of this subsection:*
>
> *(i) Capping period means the five plan years preceding the later of (A) such member's retirement date or (B) such member's final compensation date . . . .*

Neb. Rev. Stat. § 79-978(12)(a) (Cum. Supp. 2022) defines "compensation" as follows:

> *Compensation means gross wages or salaries payable to the member during a fiscal year . . . .*

Adjustments to Final Average Compensation

OSERS failed also to properly document adjustments made to the compensation of two members when determining the final average compensation.

For the first member, OSERS made an adjustment to reduce compensation in one year by $289 but failed to maintain documentation to explain the adjustment. For the second member, OSERS included $459 of compensation in the wrong period, which resulted in an inflated final average compensation. As a result, these members received an excess $4 and $1 per month, respectively.

Good internal controls require procedures to ensure all adjustments to compensation are adequately documented.

Service Credit Issues

Service credit for two members tested appeared to be inaccurate which caused the benefit payments to appear to be overstated by $94 and $18 per month. The first member accrued .5 years of service when 159 duty days out of the 274-day contract were worked. The second member accrued .5 years of service when 116 duty days out of the 184-day contract were worked. OSERS failed to provide a written policy for accruing a half a year of service for the years in question.

The District Board of Education has adopted various policies, including Section 4034 – Length of Year of Experience (Adoption Date: 11/06/2017, Revision History: Reviewed 12/14/2020), which contains the following:

> *A. For all staff without a specific clause in a negotiated agreement on duty for ten calendar months, the minimum length of a creditable year of experience shall be defined as 155 calendar days actually on duty. No surplus of the number of days in one school year shall apply to another.*

Wrong Annuity Amount Paid

OSERS calculated one member's monthly benefit to be $2,909; however, the member was receiving benefit payments of only $2,895 per month, $14 less per month than calculated. OSERS could not provide documentation supporting the reduction of the amount paid.

<u>Incorrect Tax Withholdings</u>

One member's Federal tax withholdings were incorrect based on the member's Internal Revenue Service (IRS) Form W-4P. The member reported $122,000 of additional income from sources other than her annuity benefit. OSERS failed to include this information in its calculation of the member's monthly tax withholdings. The APA calculated additional Federal withholdings of $371.

IRS Publication 15-T, "Federal Income Tax Withholding Methods," (December 14, 2022) requires the Federal tax withholdings to be adjusted for additional income from outside jobs or pensions, as reported by the member on his or her W-4P form.

Lack of Documentation

The APA also found documentation issues in our testing of the benefit payments to members, as follows:

- OSERS failed to ensure that all retirement applications were date stamped, and all termination dates were adequately documented. The receipt date of each application and the member's termination date are needed to determine the member's proper effective retirement date. One member reported the last day of employment on May 31, 2022, and submitted a retirement application in January 2022. Based on these dates, her effective retirement date should have been June 1, 2022, but OSERS determined it to be July 1, 2022, which is incorrect. For another member, the termination date was September 30, 2010, and the retirement application was signed on October 28, 2022. It appears that the effective retirement date could be November 1, 2022; however, since the application was not date stamped, it is not clear. OSERS calculated the effective retirement date as December 1, 2022. Because the lack of documentation, we were unable to determine if the members' payments began timely.

- For 7 of 10 new member benefits tested, OSERS failed to obtain adequate documentation to ensure that the age of the member was accurate. For six members, OSERS obtained a copy of the driver's license to support the date of birth; however, OSERS Rules and Regulations Chapter 5 ("Evidence to Determine Age and Status"), Section 002, ("Proof of Age") does not list the driver's license as an acceptable form of evidence of age. For one individual tested, OSERS had no documentation on file to support the member's date of birth.

- For 3 of 35 benefit payments tested, OSERS failed to provide adequate documentation verifying the members' direct deposit information for the bank in which the benefit was deposited. No signed form was on file for these members. Generally, bank mergers can cause these differences, as was the case for two of the members. However, for one of the benefit payments, it did not appear there was a merger of banks, but the same account had been used since 2018.

OSERS Rules and Regulations, Chapter 17 ("Benefit Options and Distribution Rules"), Section 002.05 ("Definitions"), defines "retirement date" as follows:

> *"Retirement Date" means the first day of the month following the later of (a) the date a member terminates employment, or (b) the date a member's request for retirement is received on a completed retirement application provided by the retirement system.*

Death Procedures

To confirm a member's death, OSERS uses the help of a vendor, who compares member information against the vendor's database of death records and obituaries. As noted in the prior audit, OSERS provided a list of member information only once – on February 28, 2022. Therefore, members whose effective retirement dates are after that time were not included in the vendor's review.

We found also that OSERS failed to use the most up-to-date version of the vendor's website; as a result, at least $1,032 in overpayments were identified because OSERS was unable to identify all deaths timely. The APA compared the biographical information of all members who received a payment in calendar year 2022 with a listing of all reported deaths in Nebraska since 1979 as provided by the Nebraska Department of Health and Human Services. This comparison identified two individuals who died during calendar year 2022, but OSERS had been unaware of their deaths.

Refund Issues

The APA noted the following issues while testing 10 refunds made during calendar year 2022:

- One member's rollover refund for $1,539 included $457 of funds that were required to be distributed directly to the member as a required minimal distribution (RMD). OSERS failed to distribute these funds properly.

- For 2 of 10 refunds tested, OSERS issued the refunds sooner than the allowable timeframe per its Rules and Regulations, which is no sooner than 20 days from when the completed application is received. The refunds, totaling $78,323, were issued only 8 and 18 days after receipt of the members' refund requests.

OSERS lacked procedures to ensure that member account balances were reduced to $0 after issuing a refund. During our refund testing as well as other testing, the APA identified a total of 10 members who received full refunds but still had account balances totaling $216,048 in PeopleSoft.

26 U.S.C. 401(a)(9)(c) states, in relevant part, the following:

> *C) Required beginning date. – For purposes of this paragraph –*
> *(i) In general. – The term "required beginning date" means April 1 of the calendar year following the later of –*
> *(I) the calendar year in which the employee attains age 72, or*
> *(II) the calendar year in which the employee retires.*

26 U.S.C. 402(c)(4) provides the following, as is relevant:

> *For purposes of this subsection, the term "eligible rollover distribution" means any distribution to an employee of all or any portion of the balance to the credit of the employee in a qualified trust; except that such term shall not include –*
>
> * * * *
>
> *(B) any distribution to the extent such distribution is required under section 401(a)(9)* . . . .

Good internal control and sound business practice require procedures to ensure the following: 1) actuarially equivalent annuities contain support to verify that they were obtained from an actuary, and factors are updated in a timely manner; 2) benefit calculations are accurate, including capping and adjustments to final average compensation; 3) the correct amount is paid based on the calculated annuity; 4) service credit is accurate and adequately documented; 5) tax withholdings are properly calculated; 6) proper documentation is on file to support receipt of the retirement application, proof of age, direct deposit instructions, and other pertinent information; 7) vendor access is updated timely and member information is uploaded to the vendor regularly; 8) member refunds are in compliance with OSERS Rules and Regulations; 9) member accounts are updated prior to issuing refunds; and 10) the refund payable accrual is complete and accurate.

Without such procedures, there is an increased risk of incorrect benefit calculations, overpayments, or material misstatements.

We consider this finding to be a significant deficiency.

> We recommend OSERS implement procedures to ensure benefit calculations are accurate, this would include procedures to ensure the following:
>
> 1) The actuarially equivalent annuities are supported and updated timely.
> 2) The capping requirements are proper.
> 3) Any adjustments to the final average compensation are accurate.
> 4) The amount calculated agrees to the amount paid.
> 5) Tax withholdings are accurate.
> 6) Proper documentation is on file to support receipt of the retirement application, proof of age, direct deposit instructions, and other pertinent information.
> 7) Information is provided more regularly to the vendor to compare the database of death information.

8) Refunds are calculated properly and distributed according to OSERS Rules and Regulations.

Management Response: OSERS will review and update procedures to address the findings noted. Specific steps will include updating OSERS Rules and Regulations for capping and proof of age, updating the actuarial equivalents in the pension system, date stamping documents received, and documenting that calculations are reviewed prior to processing.

5. <u>Purchase of Service Calculations</u>

In the prior audit, the APA identified several issues related to the calculation of purchases of service credit. OSERS failed to follow up adequately on most of the issues identified in the previous audit.

During the current audit, the APA tested three purchases of service credit by three members and noted the following issues:

Issue	Description
Retirement Age Assumption does not Conform to Rules and Regulations	The cost to purchase additional service credit, called an all-purpose buy in, is required to be the actuarial cost of granting the additional service credit. One member tested purchased 2.5 years of credit for $35,812. The cost was calculated using a worksheet provided by the actuary, which included an assumption that the member will retire at age 55, the earliest possible date. However, the OSERS Rules and Regulations state that the actuarial cost calculation should assume that the members will remain employed until age 65. It is likely that the cost of the service credit purchased by this member would be significantly higher if the retirement age assumption was 10 years longer.
Incorrect Interest Rate for Installment Payments	For two of three purchases of service tested, the interest rate charged for installment payments was incorrect, resulting in underpayments of $975 and $40. The interest rate should have been 7.5% for both, but the rates were 6.66732% for one and 6.502893% for the other.
Payments and Service Credit not Recorded to Member Accounts	For two of three purchases of service tested, the members' accounts have not been updated to include the payments or service credit earned. As of December 31, 2022, one member paid for 6.9 years of service credit, but the account has been credited with only 5 years of service purchased. The other member paid for 2.8 years of service credit, but the account has been credited for only 1.5 years. After the retirement of the OSERS Benefit Manager in July 2022, no updates have been made to the purchases of service in progress and none have been started.
No Application or Documentation of Benefit Forfeiture	For one of three purchases of service tested, OSERS lacked an application or other documentation from the member regarding the type and number of years of service purchased. The member was eligible to purchase 7.5 years of previously refunded service to the District and 1 year of prior service in another school district. For purchases of prior service in another school district, OSERS is required to verify that the member was no longer eligible for benefits in the other district. OSERS failed to obtain documentation to verify that the member's benefits had been forfeited in the other district. Other issues related to the lack of an application are included below.
Inaccurate Cost Calculation	The same member noted above inquired to OSERS about purchasing service in June 2019 and received an estimate for the cost at that time. The cost to purchase previously refunded service or service credit from another school district is based on the contributions the member would have made during those years of service with interest at the actuarial assumed rate of return through the date of purchase. No action was taken until the member contacted OSERS in December 2020. OSERS failed to provide an updated calculation and allowed the member to purchase service credit at the cost calculated in 2019. The amount was incorrect and did not include the 18 months of interest between the calculation and the purchase. The member made two lump sum payments in February 2021 and elected to complete the rest of the purchase through payroll installments. OSERS calculated the cost of the installment payments to complete the purchase. However, that calculation also contained an error that understated the cost. Again, due to the lack of documentation on the type and amount of the purchase, it is difficult to determine the total underpayment. However, it is likely in the range of $4,200 to $6,100.
District Match Overpaid	Related to the purchase included in the above two rows of this table, the District potentially overpaid its matching requirement for the purchase of service credit. The District is required to match the amount for purchases of prior service in another district. If the member intended to purchase the prior service, then OSERS overpaid its match by $3,128. The APA calculated the amount to be $6,657, and The District matched $9,785. Because of the lack of documentation regarding the type and amount of service purchased, it is unclear if the member intended to purchase service credit from another district. If the member did not intend to purchase service credit in the other district, then the District would not have a required match on the purchase.

Issue	Description
Documentation of Approved Interest Rates not Maintained.	The calculation for the repayment of a refund and the purchase of prior service credit are based on the Board-approved interest rates. OSERS lacked documentation to support the Board-approved interest rates prior to fiscal year 2015; therefore, the APA could not verify the calculated amounts.

Neb. Rev. Stat. § 79-991(2) (Cum. Supp. 2022) contains the requirements to purchase additional service credit, as follows:

> *Any employee who became a member before July 1, 2014, and who has five or more years of creditable service and any employee who became a member for the first time on or after July 1, 2014, and who has ten or more years of creditable service...may elect to purchase up to a total of five years of additional creditable service under the retirement system, and upon such purchase the member shall be given the same status as though he or she had been a member of the retirement system for such additional number of years...the amount to be paid to the retirement system for such creditable service <u>shall be equal to the actuarial cost to the retirement system of the increased benefits attributable to such additional creditable service as determined by the retirement system's actuary at the time of the purchase</u> pursuant to actuarial assumptions and methods adopted by the board until September 1, 2024.*

(Emphasis added.) OSERS Rules and Regulations, Chapter 11 ("Purchase of Service Credit"), Section 002.04 ("General Provisions"), defines further the actuarial cost:

> *Actuarial cost shall mean the full cost of purchasing service allowed by law as determined by the actuary under contract with the retirement system. The full cost of purchasing service shall be calculated based on the increase in the actuarial accrued liability resulting from the purchase of service <u>assuming the member is actively employed until age sixty-five (65)</u> . . . .*

Additionally, Neb. Rev. Stat. § 79-991(2) (Cum. Supp. 2022) specifies the interest rate used for installment payments:

> *Interest shall be charged on installment payments at the rate of interest for determining interest on delayed payments by members to the retirement system.*

The provisions related to prior service credit purchases can be found at Neb. Rev. Stat. § 79-991(1), which states, as is relevant, the following:

> *(1) An employee who becomes a member without prior service credit may purchase prior service credit, not to exceed the lesser of ten years or the member's years of membership service, for the period of service the member was employed by a school district or by an educational service unit and which is not used in the calculation of any retirement or disability benefit having been paid, being paid, or payable in the future to such member under any defined benefit retirement system or program maintained by such other school district or educational service unit. The purchase of prior service credit shall be made in accordance with and subject to the following requirements:*
>
> *(a) . . . Before prior service credit may be purchased, the administrator shall have received verification of the member's salary in each year with the other school district or educational service unit and confirmation that the prior service to be purchased by the member is not also credited in the calculation of a retirement or disability benefit for such member under another defined benefit retirement system or program.*
>
> *(b) The member shall pay to the retirement system the total amount he or she would have contributed to the retirement system had he or she been a member of the retirement system during the period for which prior service is being purchased, together with interest thereon as determined using the rate of interest for the purchase of prior service credit. . . .*
>
> *(c) . . . If the prior service to be purchased by the member exceeds the member's membership service at the time of application or any subsequent date, such excess prior service shall be credited to the member only as the member completes and is credited additional membership service, in one-tenth-year increments . . . .*
>
> *(d) The school district shall contribute to the retirement system an amount equal to the amount paid by each member for the purchase of prior service credit at the time such payments are made by such member.*

OSERS Rules and Regulations, Chapter 11 ("Purchase of Service Credit"), Section 003.03(a)(i) ("Filing and Processing of an Application Purchase of Refunded Service"), provides additional requirements for the repayment of a refund, as follows:

> *If the member wishes to proceed with the repayment of a refund after receiving a cost estimate, the member must deliver a valid and complete application for purchase of refunded service to the Administrator . . . .*

Neb. Rev. Stat. § 79-992(1) (Cum. Supp. 2022) contains the provisions of interest rates to be charged for a purchase of prior service as follows:

> *[I]f any member who has withdrawn his or her contributions as provided in this section reenters the service of the district and again becomes a member of the retirement system, he or she may restore any or all money previously received by him or her as a refund, including the interest on the amount of the restored refund for the period of his or her absence from the district's service as determined <u>using the interest rate for interest on such restored refunds</u>, and he or she shall then again receive credit for that portion of service which the restored money represents.*

(Emphasis added.) As noted above, many of these findings are the same as, or similar to, issues reported in the prior audit. However, the retirement of the OSERS benefits manager in July 2022 had a significant impact on the purchases of service. During the audit, current OSERS staff were unaware of the processes needed to calculate purchases of service or to update member accounts for the service credit purchased.

Good internal controls require procedures to ensure the following: 1) the actuarial cost to purchase service credit is in accordance with both State statutes and OSERS Rules and Regulations; 2) interest rates for installment payments are accurate; 3) payments and service credit are recorded timely in member accounts; 4) applications and documentation of prior refunds and benefit forfeitures is maintained; 5) the costs to purchase prior service are accurate and made through the date of initial payment; 6) the District match is accurate; and 7) interest rates prior to 2015 are documented.

Without such procedures, there is an increased risk that the cost purchasing of service credit will not only fail to cover the future benefits related to such purchase but also be incompatible with the requirements of State statute and/or OSERS Rules and Regulations.

> We recommend that OSERS implement procedures to ensure purchases of service are made correctly and in accordance with both State statute and OSERS Rules and Regulations. Those same procedures should ensure also that member accounts are updated timely for all purchases made and in progress, and all purchases are adequately documented.

Management Response: There was one purchase of service completed during calendar year 2022 and no new purchases of services initiated so far in 2023. Procedures will be reviewed and documented to ensure that the findings noted are addressed prior to any potential new purchases of service being initiated.

6. <u>Service Credit Issues</u>

Service credit earned by members is a component of the benefit annuity calculation upon retirement. As such, the accurate awarding of service credit to a member's account is significant. The APA tested the service credit awarded to members and found issues with 4 of 25 members tested.

Member #	Paycheck Tested	Service Hours/Years Earned	APA Calculated Service	Variance	Description
Incorrect Hours					
1	7/8/2022	72	80	-8	For the pay period tested, the amount of service credit awarded to the member was understated by eight hours. For individuals who became members on or after July 1, 2018, an hour of compensated service includes hours for which the member is compensated during a period in which no service is performed due to various types of leave used, including Federal and State holidays. The Peoplesoft application was not modified to award those leave hours as service credit. This issue was also noted in the prior audit.
2	3/15/2022	160	128	32	This member had 32 hours of unpaid leave in the pay period tested. As noted above, service credit can be granted only for compensated leave. Therefore, the amount of service awarded during this pay period is overstated.
Incorrect Years					
3	-	0.2	0	0.2	Upon review of this member's account history, .2 years of service credit was awarded during fiscal years 2021 and 2022 without the member making a retirement contribution. The member had worked summer school in those fiscal years, prior to becoming a member in September 2022. The summer school hours were reported in the member's account as service credit, even though she did not make retirement contributions. This also appears to be a system issue.
4	-	0.7	1	-0.3	This member is a full-time teacher who should have earned one year of service during fiscal year 2022 but was awarded with only .7 years. The issue was apparently due to errors in the data entry of the member's extra duty pay. When the District employee entered the extra duty pay, the system reversed the regular hours worked in the same pay period. The member had several pay periods with negative service credit earned. Again, this appears to be a system issue.

Neb. Rev. Stat. § 79-978(23) (Cum. Supp. 2022) defines "membership service" as follows, as is relevant:

> *Membership service means service on or after September 1, 1951, as an employee of the school district and a member of the system for which compensation is paid by the school district...For an employee who becomes a member prior to July 1, 2018, an hour of compensated service shall include any hour for which the member is compensated by the school district during periods when no service is performed due to vacation or approved leave. For an employee who becomes a member on or after July 1, 2018, an hour of compensated service shall include any hour for which the member is compensated by the school district during periods when no service is performed due to used accrued sick days, used accrued vacation days, federal and state holidays, and jury duty leave for which the member is paid full compensation by an employer. . . .*

Subsections (17) and (29)(a) of that same statute provide the following definitions for "employee" and "regular employee," respectively:

> *(17) Employee means the following enumerated persons receiving compensation from the school district: (a) Teachers, other than substitutes, employed on a written contract basis; (b) administrators employed on a written contract, agreement, or document basis; and (c) regular employees[.]*
>
> * * * *
>
> *(29)(a) Regular employee means a person hired on a full-time basis, which basis shall contemplate a work week of not less than thirty hours, and who is not (i) a teacher employed on a written contract basis or (ii) an administrator employed on a written contract, agreement, or document basis.*

Good internal controls require procedures to ensure that the membership service credit calculation complies with State statute.

Without such procedures, there is an increased risk of the service credit calculation being inaccurate, creating the potential for inaccurate benefit calculations.

> We recommend OSERS implement procedures to ensure that the membership service credit calculation complies with State statute.

Management Response: System process for recording service credit will be reviewed and updated to comply with state statute. Procedures will also be implemented to review recording of extra duty pay to ensure that regular hours are recorded properly.

7. <u>PeopleSoft System Issues</u>

The District utilizes a PeopleSoft application for its accounting and payroll functions. Additionally, OSERS uses PeopleSoft for the pension function. During testing of PeopleSoft, we noted the following issues:

- Access to the pension module pages allows a user to perform all pension functions without a secondary review. While the main factors used in the benefit calculation are system generated, six users have the ability to override fields used in the system calculation or update a table – all without a secondary review. None of the six users had the ability to create a new employee record. Additionally, one of the six users changed positions on November 29, 2021, and no longer needed access; however, access was not removed until the APA informed District staff of the situation.

- History tracking was not enabled to provide an adequate record of changes in several significant areas of the system.

    - The pension module was not set up to maintain an audit history of changes, including overrides of system calculations or adjustments to tables, made therein.

    - The system did not track changes to user access; as a result, it could not be determined when roles were added and whether roles were removed in a timely manner.

These issues were also noted in the prior audit.

Good internal control requires procedures to ensure the following with regard to the PeopleSoft application: 1) a proper segregation of duties exists, so no one individual can override a pension calculation without a secondary review; and 2) significant changes to the accounting system are tracked to ensure both the accuracy and completeness of information therein and the proper restrictions upon user access.

Without such procedures, there is an increased risk for misuse of the PeopleSoft application.

> We recommend OSERS and the District review areas of significant user access in the PeopleSoft application to ensure a system of enforced segregation of duties exists, and an audit history is enabled.

Management Response: OSERS and the District will review pension module access to determine any changes in user roles or security that can be made to address a documented system review of any field overrides or table changes and enabling of history tracking in the system.

* * * * *

Our audit procedures are designed primarily on a test basis and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. Our objective is, however, to use our knowledge of OSERS gained during our work to make comments and suggestions that we hope will be useful to OSERS.

This communication is intended solely for the information and use of OSERS management, its Board, and others within OSERS, as well as the appropriate regulatory agencies, and is not suitable for any other purposes. However, this communication is a matter of public record, and its distribution is not limited.

Sincerely,

Zachary Wells

Zachary Wells, CPA, CISA
Assistant Deputy Auditor
Lincoln, Nebraska