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June 22, 2023

State Auditor Mike Foley Expresses Concerns Over Management of the \$1.4 Billion Omaha School Employees Retirement System

In an audit report and management letter issued today, State Auditor Mike Foley expressed concerns over the error-ridden administration of the \$1.4 billion retirement system covering retirement accounts of over 15,000 current, inactive and retired employees of the Douglas County School District whose accounts are managed by the Omaha School Employees' Retirement System (OSERS).

The operations of OSERS have been hampered by a weakened control environment due largely to the retirement of two senior staff with a combined service of 31 years. Remaining staff struggled to provide financial information to the auditors in a timely manner often making the audit team wait four to eight weeks for routine records that State statute requires to be provided within three business days or, at most, three calendar weeks for more extensive requests.

The report notes that not only have serious findings from last year's audit remain uncorrected, but also new, no less significant, problems with OSERS operations have been discovered.

Notable among the new findings were excessive balances in OSERS member accounts due to incorrect calculations of interest earned. The auditors tested a random sample of 25 such accounts and found erroneous excessive balances in 24 of them. In 7 of the 25 member accounts tested, the errors exceeded \$2,000 and a few were over \$3,000. According to the audit report and management letter, the excess balances across more than 9,000 active and inactive employee accounts totaling over \$8.4 million.

The erroneous interest calculations were the result of a modification to the computer application used by OSERS for its pension function, which was not detected and corrected until the audit team informed OSERS of the issue.

The audit team found also that OSERS financial statements were seriously flawed as evidenced by almost \$7 million in misstatements that were corrected only after the audit team brought them to the attention of OSERS management. Additionally, the audit team also found incorrect accounting entries of some \$1.6 million in refund payouts that were reported twice on the OSERS books although not actually double paid out.

Other OSERS payouts were found to have been similarly miscalculated resulting in numerous overpayments - several of which were in excess of \$1,000.

Other serious accounting errors by OSERS including overstatement of the notional value of investment in derivative financial instruments by more than \$6.3 million and understatement of investment in foreign currencies by \$500,000.

It has long been known that OSERS is woefully underfunded to meet future payout obligations. Over the past six years, on the counsel of actuarial advisors, the District has added an additional \$128 million in contributions to the plan in an attempt to catch up with future needs.

However, the audit shows that the OSERS plan only has a 57.7% funded ratio – its lowest reserve ratio in nearly a decade. The total pension liability of \$2.5 billion exceeds its **net position by over \$1 billion – far in excess of the 2014 net pension liability of \$430 million.** In contrast, the combined School Employees Retirement Plan for all other public school districts has a 94.55% funded ratio as of June 30, 2022.

Pursuant to a 2021 state law, the general management, administration and oversight of OSERS will transfer next year from the District Board of Education, board of trustees, and school district to the Nebraska Public Employees Retirement System, as is already the case for all other public school districts, however that transfer will not relieve the Omaha Public School District of the funding obligations.