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, 2023

Issued on June 24, 2024

OMAHA SCHOOL EMPLOYEES' RETIREMENT SYSTEM

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OMAHA SCHOOL EMPLOYEES' RETIREMENT SYSTEM

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.

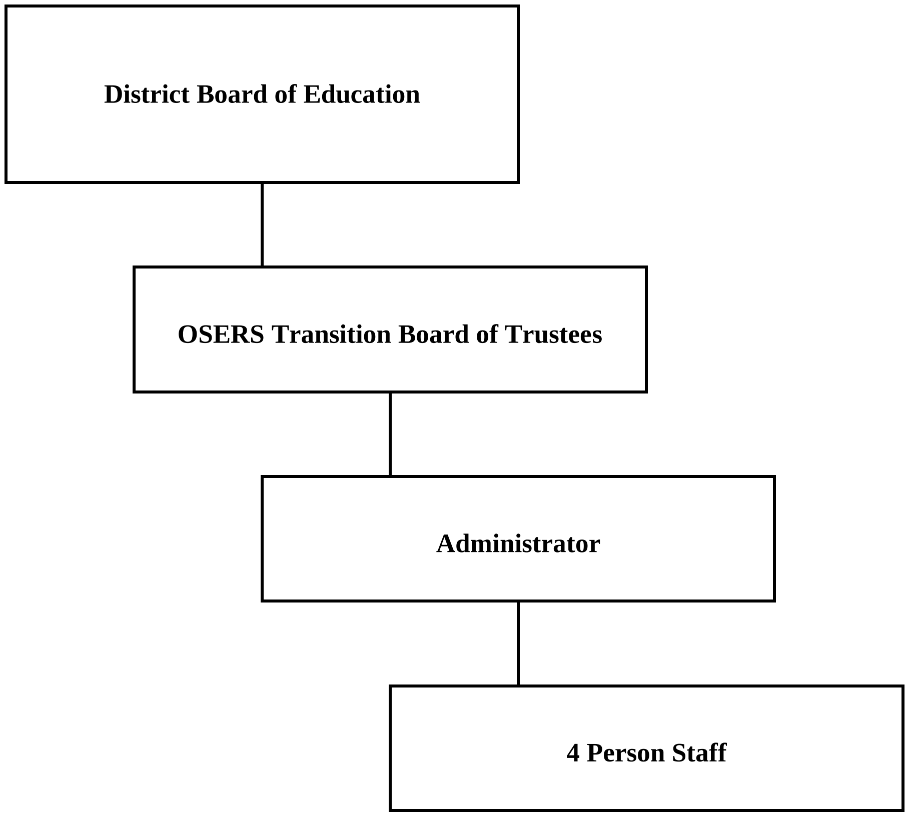
Beginning July 1, 2021, the Board of Education for the District, by a majority vote of its members, appointed seven trustees to serve on a newly created Transition Board of Trustees – the purpose of which is to facilitate, as directed by the Board of Education, transition of the management and general 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

Matthew J. Ray
Interim Superintendent

OSERS Transition Board of Trustees

Matthew J. Ray
Interim 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

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State Auditor

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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

Opinion

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, 2023, 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 accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of OSERS, as of December 31, 2023, 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 (GAAS) 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, 2023, 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 GAAS 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 GAAS 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 to 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 an opinion or provide 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 17, 2024, 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.

Lincoln, NE
June 17, 2024

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, 2023. 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, 2023, was $1,580,278, a net increase of $158,392 from December 31, 2022. OSERS net position represents funds available to pay current and future pension benefits.

OSERS experienced total net additions of $315,135 during this past calendar year. The additions are comprised of $77,763 from employer contributions, $42,900 from member contributions, $9,575 from the non-employer (State) contributions, $74 from other additions, including purchases of service, and $184,823 from net investment income.

Pursuant to Nebraska Revised Statutes section 79-9,113(c), as amended by LB1005 (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, 2023, the District made an additional contribution of $34,432 to OSERS to meet the solvency requirement, and this amount is included in total employer contributions. The District's additional contribution was $5,000 more than the actuarially required amount of $29,432.

Total retirement benefits paid in the calendar year 2023 were $146,402. This represents benefit payments to as many as 5,456 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, 2023, OSERS refunded $9,438 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 *Fiduciary Net Position Restricted for Pension Benefits*. 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.
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.

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

Financial Analysis
The following table shows condensed information from the Statement of Fiduciary Net Position:

	Fiduciary Net Position			
	CYE 12/31/2023	CYE 12/31/2022	Change in Fiscal Year	Percent Change in Fiscal Year
Total Assets	$ 1,721,347	$ 1,557,646	$ 163,701	10.51%
Total Liabilities	141,069	135,760	5,309	3.91%
Net Position	$ 1,580,278	$ 1,421,886	$ 158,392	11.14%

The increase in total assets is primarily due to an increase of $164,333 in total investments. This increase was the result of overall favorable market conditions during calendar year 2023. The annual rate of return on OSERS investments managed by the Nebraska Investment Council was 13.3% for calendar year 2023.

The following tables show condensed information from the Statement of Changes in Fiduciary Net Position:

	Additions to Fiduciary Net Position			
	CYE 12/31/2023	CYE 12/31/2022	Change in Fiscal Year	Percent Change in Fiscal Year
Employer Contributions	$ 77,763	$ 70,439	$ 7,324	10.40%
Plan Member Contributions	42,900	40,550	2,350	5.80%
Non-Employer (State) Contributions	9,575	10,439	-864	-8.28%
Total Contributions	130,238	121,428	8,810	7.26%
Net Investment Income	184,823	(184,817)	369,640	200.00%
Other Additions	74	1,027	-953	-92.79%
Total Investment Income and Other Additions	184,897	(183,790)	368,687	200.60%
Total Additions	$ 315,135	$ (62,362)	$ 377,497	605.33%

The increase in employer contributions is due to a $7,630 increase in the actuarially required additional contribution from the District. The increase in the required additional contribution from the District was the result of unfavorable market conditions during calendar year 2022 and changes in the actuarial assumptions authorized by the Board of Education as a result of the last four-year experience study for 2017 to 2020. The $369,640 increase in net investment income was the result of overall favorable market conditions experienced during calendar year 2023. The annual rate of return on OSERS investments managed by the Nebraska Investment Council was 13.3% for calendar year 2023.

	Deductions from Fiduciary Net Position			
	CYE 12/31/2023	CYE 12/31/2022	Change in Fiscal Year	Percent Change in Fiscal Year
Retirement Benefits	$ 146,402	$ 142,272	$ 4,130	2.90%
Refunds to Members	9,438	8,550	888	10.39%
Administrative Expenses	903	852	51	6.10%
Total Deductions	$ 156,743	$ 151,674	$ 5,069	3.34%

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.

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, 2023

(Thousands of Dollars)

ASSETS	
Cash and Cash Equivalents	$ 10,477
Receivables:	
Employer Contributions Receivable	2,820
Employee Contributions Receivable	2,793
Other Investments Receivable (Note 3)	82,158
Other Receivable	8,832
Total Receivables	96,603
Investments, at fair value (Note 3)	
Asset Backed Securities	28,589
Bank Loans	13,686
Commingled Debt	109,064
Commingled Funds	537,965
Corporate Bonds	134,572
Equity Securities	329,892
Government Agency Securities	2,368
Government Agency Strips	78
International Bonds	6,192
Mortgages	123,945
Municipal Bonds	918
Options	2
Private Equity	114,257
Private Real Estate	99,927
Rights/Warrants	217
Short Term Investments	42,054
US Treasury Strips	289
US Treasuries	57,478
Total Investments	1,601,493
Invested Securities Lending Collateral (Note 3)	12,774
TOTAL ASSETS	1,721,347
LIABILITIES	
Refunds Payable and Accounts Payable	1,871
Accrued Payroll and Benefits Payable	12,471
Obligations Under Securities Lending (Note 3)	12,774
Other Investments Payable (Note 3)	113,953
TOTAL LIABILITIES	141,069
Fiduciary Net Position - Restricted for Pension Benefits	$ 1,580,278

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, 2023

(Thousands of Dollars)

ADDITIONS	
Contributions	
Plan Member Contributions	$ 42,900
Employer Contributions	77,763
Non-Employer (State) Contributions	9,575
Total Contributions	130,238
Investment Income	
Interest and Dividends	29,132
Securities Lending Income	1,456
Net Appreciation in Fair Value of Investments	159,720
Total Investment Income	190,308
Investment Expense	(4,195)
Securities Lending Expense	(1,290)
Net Investment Income	184,823
Other Additions	74
Total Additions	315,135
DEDUCTIONS	
Retirement Benefits	146,402
Refunds to Employees, including Interest	9,438
Administrative Expenses:	
Personnel Costs	288
Professional Fees	574
Other	41
Total Administative Expenses	903
Total Deductions	156,743
Net Increase in Fiduciary Net Position	158,392
FIDUCIARY NET POSITION RESTRICTED FOR PENSION BENEFITS	
BEGINNING OF YEAR	1,421,886
END OF YEAR	$ 1,580,278

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, 2023, 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 as a fiduciary fund 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.

(Thousands of Dollars)

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, 2024, the date of the most recent valuation report:

Inactive members or their beneficiaries currently receiving benefits	5,411
Inactive members entitled to but not yet receiving benefits	1,628
Inactive nonvested members entitled to a refund of member contributions	1,657
Active members	6,713
Total	15,409

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 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.

2. OSERS Description and Contribution Information (Continued)

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 $29,432. Total additional contributions made by the District during the calendar year ended December 31, 2023, amounted to $34,432 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.

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.

2. OSERS Description and Contribution Information (Concluded)

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, 2023, the carrying amounts of the OSERS' deposits were \$10,477, and the bank balances were \$11,016. 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, 2023.

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, 2023. 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.

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.

(Thousands of Dollars)

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

Investments as of December 31, 2023, at Fair Value Measurement Using:

	Fair Value	Level 1	Level 2	Level 3
Debt Securities:				
Asset Backed Securities	$ 28,589	$ -	$ 28,589	$ -
Bank Loans	13,686	-	13,686	-
Commingled Debt	109,064	96,939	12,125	-
Corporate Bonds	134,572	-	134,572	-
Government Agency Securities	2,368	-	2,368	-
Government Agency Strips	78	-	78	-
International Bonds	6,192	-	6,192	-
Mortgages	123,945	-	123,945	-
Municipal Bonds	918	-	918	-
Rights/Warrants	217	217	-	-
Short Term Investments	42,054	4,382	37,672	-
US Treasuries	57,478	-	57,478	-
US Treasury Strips	289	-	289	-
	519,450	101,538	417,912	-
Other Investments:				
Commingled Funds	537,965	534,316	3,649	-
Equity Securities	329,892	329,892	-	-
Options	2	-	2	-
Total Investments	$ 1,387,309	$ 965,746	$ 421,563	$ -

Investments Measured at the Net Asset Value (NAV):		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private Real Estate:			Quarterly	90 Days
Core	$ 42,837	$ -		
Non-Core	57,090	26,288		
Private Equity	107,293	37,846		
Hedge Funds	6,964	-		
Total Investments measured at Net Asset Value	$ 214,184	$ 64,134		
Total	1,601,493			
Securities Lending Collateral	12,774			
Total Investments at Fair Value	$ 1,614,267			

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:

- US Treasuries, US Treasury Strips, Government Agency Securities, Government Agency Strips, and Short Term Investments: quoted prices for identical securities in markets that are not active;
- Corporate, International, and Municipal Bonds: 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 Debt and Commingled Funds: published fair value per share (unit) for each fund.

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.

(Thousands of Dollars)

3. <u>Cash and Investments</u> (Continued)

OSERS Investments at December 31, 2023

	Fair Value	Effective Duration
Debt Securities:		
Asset Backed Securities	$ 28,589	1.31
Bank Loans	13,686	0.39
Commingled Debt	109,064	5.36
Corporate Bonds	134,572	4.90
Government Agency Securities	2,368	8.13
Government Agency Strips	78	5.38
International Bonds	6,192	6.05
Mortgages	123,945	5.05
Municipal Bonds	918	9.25
Rights/Warrants	217	-
Short Term Investments	42,054	-
US Treasury Strips	289	18.31
US Treasuries	57,478	10.54
	519,450	
Other Investments:		
Commingled Funds	537,965	
Equity Securities	329,892	
Private Equity	114,257	
Options	2	
Private Real Estate	99,927	
Total Investments	$ 1,601,493	
Securities Lending Collateral	12,774	
Total	$ 1,614,267	

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investments full price. The State does not have a policy that addresses interest rate risk.

OSERS investments at December 31, 2023, 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, 2023, 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	Government Agency Strips	Short Term Investments	Municipal Bonds
AAA	$21,167	385	147	-	17,257	$ -	$ -	-	$ -	187
AA	545	1,914	1,957	454	201	-	-	-	-	510
A	297	27,285	46	519	370	-	-	-	-	18
BBB	1,419	78,009	89	1,858	10	-	-	-	-	
BB	1,769	16,200	129	1,956	17	-	-	-	-	203
B	179	7,572	-	572	49	-	-	-	-	-
CCC	155	1,339	-	259	50	-	-	-	-	-
CC	411	365	-	-	213	-	-	-	-	-
C	1	49	-	11	-	-	-	-	-	-
D	696	-	-	40	204	-	-	-	-	-
NR	1,950	1,454	-	523	105,574	13,686	109,064	78	42,054	-
	$28,589	134,572	2,368	6,192	123,945	13,686	109,064	78	42,054	918

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, 2023, 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 24 to 38 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.

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.

(Thousands of Dollars)

3. Cash and Investments (Continued)

	Asset Backed Securities	Bank Loans	Corporate Bonds	Equity Securities	International Bonds	Mortgages	Options	Private Equity	Short Term Investments
AUSTRALIAN DOLLAR	-	-	-	516	-	-	-	-	65
BRAZILIAN REAL	-	-	-	2,981	150	-	-	-	15
CANADIAN DOLLAR	-	-	-	4,833	-	-	-	5,439	710
CZECH KORUNA	-	-	-	69	-	-	-	-	1
DANISH KRONE	-	-	-	4,612	-	-	-	-	88
EURO CURRENCY	2,363	3,765	5,055	34,836	1,042	-	(3)	4,714	1,402
HONG KONG DOLLAR	-	-	-	5,538	-	-	-	-	2
HUNGARIAN FORINT	-	-	-	36	-	-	-	-	1
INDONESIAN RUPIAH	-	-	-	150	-	-	-	-	8
JAPANESE YEN	-	-	-	16,518	-	-	-	-	92
KUWAITI DINAR	-	-	-	527	-	-	-	-	4
MALAYSIAN RINGGIT	-	-	-	739	-	-	-	-	-
MEXICAN PESO	-	-	22	843	882	-	-	-	15
NEW ISRAELI SHEQEL	-	-	-	870	-	-	-	-	5
NEW ZEALAND DOLLAR	-	-	-	-	-	-	-	-	1
NORWEGIAN KRONE	-	-	-	263	-	-	-	-	21
PHILIPPINE PESO	-	-	-	149	-	-	-	-	1
POLISH ZLOTY	-	-	-	1,425	-	-	-	-	5
POUND STERLING	-	500	850	16,941	-	1,442	-	10,954	2,198
SINGAPORE DOLLAR	-	-	-	7	-	-	-	-	-
PERUVIAN NUEVO SOL	-	-	55	-	-	-	-	-	-
SOUTH AFRICAN RAND	-	-	-	724	544	-	-	-	1
SOUTH KOREAN WON	-	-	-	659	-	-	-	-	-
SWEDISH KRONA	-	-	-	494	-	-	-	-	6
SWISS FRANC	-	-	-	3,463	-	-	-	-	1
THAILAND BAHT	-	-	-	299	-	-	-	-	4
TURKISH LIRA	-	-	-	2,864	-	-	-	-	6
URUGUAYAN PESO	-	-	-	-	93	-	-	-	-
YUAN RENMINBI	-	-	-	10,911	-	-	-	-	(7,029)
YUAN RENMINBI OFFSHORE	-	-	-	-	-	-	-	-	7,052
Total	2,363	4,265	5,982	111,267	2,711	1,442	(3)	21,107	4,675

Derivative 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 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, 2023, are reflected in investments. The fair value balances and notional amounts of derivative instruments outstanding at December 31, 2023, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows:

(Thousands of Dollars)

3. Cash and Investments (Continued)

Derivative Instrument	Change in Fair Value	Fair Value	Notional
Credit Default Swaps Bought	$ (10)	$ -	$ -
Credit Default Swaps Written	175	115	5,875
Fixed Income Futures	(220)	-	16,649
Fixed Income Options Bought	46	54	4,936
Fixed Income Options Written	114	(52)	(8,368)
Foreign Currency Options Bought	(5)	2	300
Foreign Currency Options Written	4	(1)	(599)
Futures Options Written	95	-	-
FX Forwards	(442)	(110)	20,419
Futures Options Written	515	-	-
Pay Fixed Interest Rate Swaps	(186)	518	34,740
Receive Fixed Interest Rate Swaps	278	148	25,840
Total Return Swaps Equity	31	18	(227)
Rights/Warrants	(13)	217	65
Total	$ 382	$ 909	$ 99,630

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, 2023, 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, 2023, was $909. 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 $909.

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+.

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.

(Thousands of Dollars)

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

Foreign currency risk for derivative instruments at December 31, 2023, are as follows:

Currency	Options	Swaps	Forward Contracts
Australian Dollar	$ -	$ 18	$ 37
Canadian Dollar	-	(44)	(2)
Euro Currency	(3)	(39)	(89)
Pound Sterling	1	23	(23)
Japanese Yen	-	324	(6)
Mexican Peso	-	3	(23)
New Taiwan Dollar	-	-	1
South African Rand	-	-	(5)
Total	$ (2)	$ 285	$ (110)

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, 2023, 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 14.09% for the year ended December 31, 2023. 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.

4. **Net Pension Liability**

The components of the net pension liability of OSERS as of August 31, 2023, are as follows:

Total pension liability	$ 2,680,280
Fiduciary net position	1,541,691
Net pension liability	$ 1,138,589
Ratio of fiduciary net position to total pension liability	57.52%

(Thousands of Dollars)

4. Net Pension Liability (Continued)

Actuarial assumptions: The total pension liability was determined based on an actuarial valuation as of January 1, 2023, rolled forward to August 31, 2023, using standard actuarial formulae and the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	2.60%
Wage inflation	3.10%
Salary increases, including price inflation	3.10 – 6.50%
Long-term rate of return, net of investment expense, including price inflation	7.30%
Municipal bond index rate:	
Prior measurement date	3.38%
Measurement date	3.77%
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	7.40%
Measurement date	7.30%
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
Mortality	Active members use the Pub-2010 General Members (Median) Employee Mortality Table projected generationally using the NPERS projection scale. Retirees use the Pub-2010 General Members (Median) Retiree Mortality Table projected generationally using the NPERS projection scale. Beneficiaries use the Pub-2010 General Members (Median) Contingent Survivor Mortality Table projected generationally using the NPERS projection scale. Disabled retirees use the Pub-2010 Non-Safety Disabled Retiree Mortality Table, without generational improvement.

4. Net Pension Liability (Continued)

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, 2023, was 7.30%. The discount rate used to measure the TPL at August 31, 2022, was 7.40%.

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 for the current and future years were assumed to be 0.24% of the current members' proportionate share of covered payroll.

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 7.30% 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.

(Thousands of Dollars)

4. Net Pension Liability (Concluded)

Municipal bond rate: A municipal bond rate was not used in determining the discount rate. If it were required, the rate would be 3.77% on the measurement date.

Periods of projected benefit payments: Projected future benefit payments for all current members were projected through 2122.

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 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 7.30%, as well as OSERS' net pension liability calculated using a discount rate that is one percentage-point lower (6.30%) or one percentage-point higher (8.30%) than the current rate:

	1% Decrease (6.30%)	Current Discount Rate (7.30%)	1% Increase (8.30%)
Total Pension Liability	$ 3,025,414	$ 2,680,280	$ 2,393,664
Fiduciary Net Position	1,541,691	1,541,691	1,541,691
Net Pension Liability	$ 1,483,723	$ 1,138,589	$ 851,973

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

5. Litigation

OSERS is subject to lawsuits and claims for various amounts brought about in the normal course of business. In the opinion of 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, 2024, projected an additional required District contribution of $33,686 for District Fiscal Year Ended August 31, 2024.

OMAHA SCHOOL EMPLOYEES' RETIREMENT SYSTEM

SCHEDULE OF CHANGES IN THE NET POSITION LIABILITY

Last 10 Fiscal Years Ending August 31

(Thousands of Dollars)

(Unaudited)

		2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
TOTAL PENSION LIABILITY:											
Service cost at end of year	$	49,212	47,817	46,029	43,490	42,354	37,704	37,821	39,451	38,242	36,090
Interest on total pension liability		181,574	177,118	168,343	163,027	159,150	152,896	144,648	138,933	133,768	128,868
Difference between expected and actual experience		49,437	16,803	45,177	2,015	(17,656)	19,474	26,757	7,104	(501)	--
Changes of assumptions		24,519	(1,595)	--	--	--	--	141,348	--	--	--
Other*		1,342	3,637	2,290	1,808	1,991	1,832	2,088	1,946	2,919	--
Benefit payments, including member refunds		(156,216)	(147,214)	(142,546)	(136,485)	(131,896)	(125,272)	(118,997)	(113,106)	(106,735)	(100,810)
Net change in total pension liability		149,868	96,566	119,293	73,855	53,943	86,634	233,665	74,328	67,693	64,148
TOTAL PENSION LIABILITY-beginning of year		2,530,412	2,433,846	2,314,553	2,240,698	2,186,755	2,100,121	1,866,456	1,792,128	1,724,435	1,660,287
TOTAL PENSION LIABILITY-end of year	$	2,680,280	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	$	77,213	69,138	61,411	57,033	57,268	55,564	47,981	33,903	33,109	31,913
Contributions-state		7,798	7,534	7,290	7,302	7,420	7,111	6,897	6,661	6,453	7,888
Contributions-member		42,382	39,262	36,891	35,295	35,614	36,327	34,883	33,764	32,584	31,597
Net investment income		110,193	(144,671)	290,971	118,829	31,298	85,795	73,217	15,375	(51,214)	154,207
Benefit payments, including member refunds		(156,215)	(147,214)	(142,546)	(136,485)	(131,896)	(125,272)	(118,997)	(113,106)	(106,735)	(100,810)
Administrative expense		(1,608)	(894)	(952)	(890)	(1,087)	(867)	(1,384)	(1,290)	(814)	(1,123)
Other*		1,394	3,638	2,289	1,841	3,160	1,844	2,090	2,082	3,002	703
Net change in plan fiduciary net position		81,157	(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		1,460,534	1,633,741	1,378,387	1,295,462	1,293,685	1,233,183	1,188,496	1,211,107	1,294,722	1,170,347
PLAN FIDUCIARY NET POSITION-end of year	$	1,541,691	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	$	1,138,589	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		57.52%	57.72%	67.13%	59.55%	57.82%	59.16%	58.72%	63.68%	67.58%	75.08%
Covered payroll	$	433,356	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		262.74%	266.50%	212.11%	259.40%	259.57%	240.43%	243.06%	196.38%	174.39%	133.01%

See accompanying independent auditor's report

* Effective 2015, other amounts include transfer of assets of state service annuity liabilities transferred to OSERS and purchases of service.
For 2023, these amounts were $1,336 and $6, respectively.

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 Changes in the Net Pension Liability to be reported on the entity's fiscal year end which is still August 31, per State Statute 79-978(19).

OMAHA SCHOOL EMPLOYEES' RETIREMENT SYSTEM

SCHEDULE OF CHANGES IN EMPLOYER AND NON-EMPLOYER CONTRIBUTIONS

Last 10 Fiscal Years Ending August 31

(Thousands of Dollars)

(Unaudited)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	$ 80,011	$ 68,991	$ 66,756	$ 62,803	$ 61,631	$ 62,637	$ 57,674	$ 37,906	$ 34,614	$ 34,225
Employer statutory	42,781	39,655	37,266	35,676	35,967	36,664	35,231	33,903	33,109	31,913
Employer additional	34,432	29,483	24,145	21,357	21,300	18,900	12,750	--	--	--
Non-employer (state)*	7,798	7,534	7,290	7,302	7,420	7,111	6,897	6,661	6,453	6,285
Total actual contributions	85,011	76,672	68,701	64,335	64,687	62,675	54,878	40,564	39,562	38,198
Annual contribution deficiency (excess)	(5,000)	(7,681)	(1,945)	(1,532)	(3,056)	(38)	2,796	(2,658)	(4,948)	(3,973)
Covered payroll	$ 433,356	$ 401,451	$ 377,207	$ 360,891	$ 364,154	$ 371,440	$ 356,676	$ 345,231	$ 333,166	$ 323,078
Actual contributions as a percentage of covered payroll	19.62%	19.10%	18.21%	17.83%	17.76%	16.87%	15.39%	11.75%	11.87%	11.82%

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 Changes in Employer and Non-Employer Contributions to be reported on the entity's fiscal year end which is still August 31, per State

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

OMAHA SCHOOL EMPLOYEES' RETIREMENT SYSTEM

SCHEDULE OF MONEY-WEIGHTED RATES OF RETURN

Last 10 Fiscal Years Ending August 31

(Thousands of Dollars)

(Unaudited)

	Money-Weighted Rates of Return
2023	7.81%
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%

**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.*

OMAHA SCHOOL EMPLOYEES' RETIREMENT SYSTEM
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Last 10 Fiscal Years Ending August 31
(Unaudited)
(Thousands of Dollars)

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, 2023 (based on the January 1, 2023, 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	2.60%
Salary increases, including price inflation	3.10 – 6.50%
Long-term rate to return, net of Investment expense, including price inflation	7.30%
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:

1/1/2023 valuation:

- The investment return assumption was lowered from 7.40% to 7.30%.
- The inflation assumption was lowered from 2.70% to 2.60%.
- The assumed interest rate credited on employee contributions was lowered from 2.70% to 2.60%.
- The general wage increase assumption was lowered from 3.20% to 3.10%.

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.

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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, 2023, and the related notes to the financial statements, which collectively comprise the OSERS' basic financial statements, and have issued our report thereon dated June 17, 2024. 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 17, 2024 as Comment Number 1 ("Poor Management Oversight"), Comment Number 2 ("Inaccurate Benefit Calculations"), Comment Number 3 ("Refund Issues"), Comment Number 4 ("PeopleSoft System Issues"), Comment Number 5 ("Service Credit"), and Comment Number 7 ("Accounting and Disclosure Errors") 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 17, 2024.

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 17, 2024

Zachary Wells, CPA, CISA
Assistant Deputy Auditor

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June 17, 2024

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, 2023, 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 17, 2024. In connection with our engagement to audit 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 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 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 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 material weaknesses.

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 ("Poor Management Oversight"), Comment Number 2 ("Inaccurate Benefit Calculations"), Comment Number 3 ("Refund Issues"), Comment Number 4 ("PeopleSoft System Issues"), Comment Number 5 ("Service Credit"), and Comment Number 7 ("Accounting and Disclosure Errors") to be significant deficiencies.

Draft copies of this letter were furnished to OSERS to provide management with an opportunity to review and to respond to the comments and recommendations contained herein. The 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, 2023.

1. Poor Management Oversight

In the prior audit, the Auditor of Public Accounts (APA) described several factors that negatively impacted the control environment – or oversight of the system – most notably the loss of key employees who managed the day-to-day operations of OSERS.

As a result of the staffing changes, the Douglas County School District #0001 (District) contracted with the Nebraska Public Employees Retirement System (NPERS) to provide staff support to OSERS from June 2022 until May 2023. At that time, OSERS hired a contract employee through a temporary staffing agency to act as the OSERS benefits manager.

The hiring of this contractual employee did little to improve the effectiveness of the oversight of the system for the remainder of calendar year 2023. Very few of the prior audit findings have been resolved or even attempted to be resolved. In the few instances when corrective action was taken, the APA found issues and errors with those processes. Those issues are described throughout this report.

During the audit, the APA noted the following concerns, which appear to have been caused by the staff changes discussed above:

- OSERS failed again to provide timely responses to auditor questions.
- Prior audit findings were not appropriately resolved or addressed.
- Benefit calculations continued to be processed incorrectly.

Lack of Timely Responses

As noted in the previous audit, the APA encountered significant delays from OSERS in providing information or answering questions. The following table identifies specific information that OSERS failed to provide within the statutorily required 3 or 21 days of request by the APA:

Item Description	Request Date	Request Due Date	Received Date	APA Notes	Number of Days from Due Date to Received Date
GASB 67 Report	1/19/2024	2/9/2024	3/22/2024	One month after the request was received, on 2/16/2024, the OSERS Administrator explained the GASB 67 report had not been completed based on concerns with the measurement date. On 2/20/2024, the APA explained that the GASB requires it to be fiscal year.	42
Follow-up questions regarding purchase of service	2/22/2024	2/27/2024	3/26/2024	Initial response provided on 3/7/2024 was incomplete. On 3/15/2024, the Benefit Manager explained that adjustments were completed for service credit and contributions related to purchase of service in PeopleSoft. However, based on our review, the APA knew this was not correct. The OSERS Administrator responded on 3/26/2024, agreeing that updates had not been made to the two member accounts tested in the prior year.	28
Questions on whether Prior Year Refund Issues were corrected	2/5/2024	2/8/2024	3/7/2024		28
Negative Records Sample	2/7/2024	2/14/2024	3/4/2024	The initial response was received on 2/19/2024 but was incomplete. APA sent a follow-up email on 2/20/2024. On 2/28/2024, a response to all but one item was provided. The final piece of information was received on 3/4/2024.	19
Questions regarding balance errors identified by the APA for new employees - also requested list of all balances with errors	2/20/2024	2/23/2024	3/12/2024	Initial response from OSERS was received on 2/27/2024 related to two specific members tested. OSERS provided a first list of members on 3/6/2024. On 3/12/2024 another file of member accounts was provided. The APA does not consider the list to be complete or to have caught all missed contributions.	18
Status of Prior Audit Findings	2/5/2024	2/14/2024	3/1/2024		16
Journal entry sample question	2/15/2024	2/21/2024	3/7/2024		15

Item Description	Request Date	Request Due Date	Received Date	APA Notes	Number of Days from Due Date to Received Date
Requested explanation for SSA Benefits paid to Beneficiaries that have not stopped, and any follow-up planned action to recoup overpayments.	3/6/2024	3/11/2024	3/26/2024	Initial response was provided on 3/6/2024. Not all questions were answered.	15
Requested the data files sent to the Actuary (e.g., active members, members receiving benefits, etc.)	1/19/2024	2/5/2024	2/19/2024		14
Clarification questions on the benefits memo and prior year point follow-up responses	2/21/2024	2/26/2024	3/11/2024		14
Questions about former OSERS employee purchases of service and non-taxable portion of benefit	3/4/2024	3/7/2024	3/20/2024	Initial response provided on 3/8/2024. The response did not answer all questions completely. On 3/15/2024 OSERS explained that the non-taxable portion of the benefit is calculated by the system and that they will inquire with IMS about how it is calculated. The APA figured the non-taxable portion out themselves.	13
Fraud Inquiry - one OSERS employee	2/26/2024	2/29/2024	3/12/2024		12
New retiree questions about earnings, service credit, State service annuity deferrals, proof of age, and actuarial factors	3/18/2024	3/21/2024	4/2/2024	A partial response was provided on 3/26/2024. After follow-up questions were also sent, a compete response was received on 4/2/2024.	12
Email regarding QDRO calculations	3/19/2024	3/22/2024	4/3/2024		12
Fraud Inquiry - District Board Member	2/26/2024	2/29/2024	3/11/2024		11
Questions regarding Medical COLA Adjustments	3/19/2024	3/22/2024	4/1/2024		10
Request for additional information on Journal Entries	2/23/2024	2/28/2024	3/7/2024		8
New Retiree Sample	2/8/2024	2/16/2024	2/23/2024	An initial response was provided on 2/16/2024. APA began testing on 2/23/2024 and found the response was incomplete. OSERS sent immediately, as the files did not download properly.	7
Footnotes	1/19/2024	4/12/2024	4/18/2024	GASB 72 disclosure not received until 4/18/2024.	6
Request for District monthly buy-in detail reports	1/19/2024	2/9/2024	2/15/2024		6
OSERS buy-in spreadsheet	1/19/2024	2/9/2024	2/15/2024		6
Bank Reconciliation as of 12/31/2023	1/19/2024	2/9/2024	2/15/2024		6
Follow-up questions for Receivable for a member and how the tax withholding refund was coded and documented	3/8/2024	3/12/2024	3/18/2024		6
Email requesting: access to January 2024 bank reconciliation; to set up meeting for consolidation process walkthrough; to request documentation for payroll process walkthrough	2/20/2024	2/23/2024	2/29/2024	Bank reconciliation provided on 2/29/2024.	6
Member files sent to PBI and results returned from PBI in calendar year 2023	1/19/2024	2/9/2024	2/14/2024		5
Expense sample	2/7/2024	2/14/2024	2/19/2024	Documentation was provided on 2/13/2024, but one item was not complete, and the APA sent a follow-up question.	5
Email regarding financial information reviewed by District and OSERS boards	2/16/2024	2/22/2024	2/27/2024		5
Question regarding outstanding payroll checks list since it had changed from prior reconciliation, but no new list was provided	3/15/2024	3/20/2024	3/25/2024		5
Question on journal entry #247846	4/8/2024	4/11/2024	4/16/2024		5

It is important to note the far right column in the table above is the number of days from the request due date to the received date. The request due date is generally the three days required by statute but can also be a longer period granted by the APA – as seen in the first item in the table. Therefore, the number of days does not include the time from the original request date to the response due date.

Because the issue was a prior audit finding, the APA sent an email to OSERS management on February 1, 2024, reiterating the need for timely responses in compliance with statute. On the same day, the OSERS Administrator/District Chief Financial Officer (CFO) responded that he understood and would communicate the APA's concern to OSERS and District personnel.

Already by February 14, 2024, the APA had determined that certain requests were not being fulfilled timely. At the audit entrance meeting on February 16, 2024, the APA raised these concerns and was assured by the OSERS Administrator/District CFO that response times would improve.

On February 26, 2024, the APA expressed concerns that response times had not improved and that we needed to consider setting up weekly meetings to ensure that the information was provided on time. On February 27, 2024, the APA sent emails to the Presidents of the OSERS Transition Board of Trustees and the District Board of Education, as well as to the Interim Superintendent, with our concerns about response times. At that time, the APA also set up weekly video conferences with the OSERS management team.

The above table shows clearly that OSERS continued to struggle to provide responses timely throughout the remainder of the audit.

The primary factor contributing to the lack of responsiveness is the loss of significant OSERS staff experience in calendar year 2022, whose knowledge of the day-to-day operations was nearly impossible to replace.

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 request for access to information or records shall exceed three calendar weeks after actual receipt of such request by any public entity.</u> 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.) A proper system of internal controls and sound management practices require procedures to ensure the timely response to audit questions and requests for information.

Without such procedures, there is an increased risk of not only prolonging the audit process but also failing to comply with statute.

<u>Prior Findings</u>
OSERS management failed to resolve or address significant issues identified in the prior audit, as follows:

Refund Overpayments
One of the most significant findings from the prior audit was the system change implemented in January 2023 that caused overstated account balances. As reported previously, OSERS was not aware of the error until the APA brought it to the agency's attention on March 8, 2023. By that time, refund payments for February and March 2023 had been processed. In total, the APA projected a total overpayment of $17,776 for 45 refunds issued during February and March 2023.

The table below shows the overpayments for eight refunds tested by the APA that have not been recovered:

Voucher #	APA Calc. Refund	Actual Refund	Overpayment	Payment Date
11531	$ 104,910.00	$ 107,076.22	$ 2,166.22	2/13/2023
11679	$ 119,539.65	$ 119,882.29	$ 342.64	4/12/2023
11510	$ 76,334.04	$ 77,891.08	$ 1,557.04	2/9/2023
11544	$ 9,732.36	$ 9,937.37	$ 205.01	2/13/2023
11545	$ 68,414.83	$ 69,776.23	$ 1,361.40	2/13/2023
11526	$ 65,334.69	$ 66,683.84	$ 1,349.15	2/13/2023
11507	$ 47,284.87	$ 48,240.81	$ 955.94	2/9/2023
11542	$ 21,557.97	$ 21,976.40	$ 418.43	2/13/2023

The APA also determined that some refunds issued in January 2023 were underpaid. These refunds were originally set to be issued in December 2022 and were calculated prior to the posting of December 2022 interest. However, the refunds were not actually issued until January and should have included the December interest. The table below shows the underpayments for four January 2023 refunds tested by the APA:

Voucher #	APA Calc. Refund	Actual Refund	Underpayment	Payment Date
11269	$ 99,014.60	$ 98,728.33	$ (286.27)	1/6/2023
11320	$ 48,791.43	$ 48,650.37	$ (141.06)	1/6/2023
11274	$ 24,498.34	$ 24,427.51	$ (70.83)	1/6/2023
11347	$ 5,266.34	$ 5,251.11	$ (15.23)	1/9/2023

The APA determined that 82 refunds, totaling over $2 million, were issued on January 6, 2023.

The two tables above show only the specific refunds selected for testing by the APA in either the current or prior year.

OSERS failed to initiate any corrective actions in the year since the errors were identified.

A proper system of internal controls and sound management practices require procedures to ensure all refund overpayments from 2023 are reviewed and resolved.

Without such procedures, there is an increased risk for loss of plan assets.

Medical COLA Adjustments

In our prior audits, the APA determined that the system was not allowing certain members to receive the full $250 medical cost-of-living-adjustment (COLA). The system was built to have the medical COLA increase cease after 25 years instead of at $250. Therefore, some members did not receive the correct medical COLA payments.

To resolve this issue, OSERS accumulated the retirees who were in "pay status" and receiving a medical COLA as of July or August 2023. For these active members, an additional lump sum payment was granted in October 2023 to make up for the previous COLA errors and to bring the monthly medical COLA to the correct amount. The APA found one member included in the table below who did not receive the lump sum payment. The APA calculated this member's lump sum payment to be $2,193.

OSERS also failed to consider providing the lump sum payment for incorrect medical COLAs to members whose benefit payments ceased prior to July or August of 2023. The APA identified 13 members whose benefits ceased in calendar years 2022 or 2023 whose medical COLAs were underpaid by $17,011.

Retirement Date	Last Payment Date	Total Medical COLA Underpayments
7/1/1993	2/1/2023	$ 256.25
7/1/1993	2/1/2023	$ 476.50
7/1/1990	7/1/2023	$ 520.50
7/1/1993	3/1/2023	$ 510.00
3/1/1995	4/1/2023	$ 58.50
7/1/1992	1/18/2022	$ 9,757.50
7/1/1989	4/14/2022	$ 1,383.00
7/1/1986	12/29/2021	$ 2,524.00
7/1/1993	7/31/2022	$ 599.00
11/1/1993	11/27/2022	$ 208.35
7/1/1991	2/15/2022	$ 639.00
12/1/1994	2/18/2022	$ 21.78
7/1/1995	5/31/2022	$ 56.25
3/4/1981	N/A	$ 2,193.00
Total		**$ 19,203.63**

It should be noted that the APA only reviewed benefits that ceased in the prior two years, and the total amount of underpayments to ceased retirees would be larger.

A proper system of internal controls and sound management practices require procedures to ensure the medical COLA amounts have been properly reviewed and resolved.

Without such procedures, there is an increased risk for loss of plan assets.

State Service Annuity Payments to Beneficiaries
Another issue identified in prior audits was the payment of the State service annuity to beneficiaries upon death of a member who had received benefit payments. The APA found no statutory authority for the continuation of this annuity to the beneficiary. OSERS ultimately agreed with the APA's finding but failed to act until January 2024.

Again, to resolve this issue, OSERS accumulated the beneficiaries who had received the State service annuity in October 2023, intending to stop the State service annuity payments to these beneficiaries as of January 2024. OSERS identified 225 beneficiaries whose State service annuity payments should end. In January 2024, OSERS stopped the State service annuity payments to 220 beneficiaries. By that time, the 220 beneficiaries had collected a total of $1,144,170 in State service annuity payments.

The APA found that 5 of the 225 beneficiaries identified by OSERS continued to receive the State service annuity as of January 2024. Those payments to those five members are detailed in the following table:

Benefit Start Date	Months of Payments Received	APA Projected SSA Overpayment at 12/31/2023
2/1/2021	33	$ 2,783.55
9/1/2020	38	$ 1,370.66
12/31/2022	11	$ 385.88
10/1/2016	85	$ 4,454.85
11/1/2018	60	$ 6,658.80
Total		**$ 15,653.74**

Additionally, the APA identified 26 other beneficiaries who were excluded from OSERS' original list. The status of those 26 beneficiaries was incorrect in the system, so OSERS failed to identify them. The table below lists the members and their calculated overpayment of the State service annuity.

Benefit Start Date	Months of Payments Received	APA Projected SSA Overpayment as of 12/31/2023
1/1/2023	11	$ 498.08
3/1/2023	9	$ 1,009.17
2/1/2023	10	$ 1,011.60
4/1/2023	8	$ 249.36
8/1/2023	5	$ 240.60
1/1/2023	11	$ 478.83
6/1/2023	6	$ 490.50
9/1/2023	3	$ 117.18
3/1/2013	128	$ 5,045.76
11/1/2023	1	$ 62.01
11/1/2023	1	$ 64.90
6/1/2023	6	$ 594.66
8/1/2023	4	$ 274.60
4/1/2023	8	$ 252.16
9/1/2023	3	$ 103.89
3/1/2023	10	$ 549.00
7/1/2023	5	$ 136.90
8/1/2023	4	$ 262.28
9/1/2023	3	$ 52.20
12/31/2022	14	$ 584.50
2/1/2023	10	$ 528.00
4/1/2023	8	$ 253.76
9/1/2022	15	$ 568.80
3/1/2023	9	$ 288.72
4/1/2023	8	$ 179.20
12/1/2022	12	$ 588.00
Total		**$ 14,484.66**

As noted with the medical COLA issue, OSERS did not consider those beneficiaries whose payments had ceased during the year. The APA identified 23 such beneficiaries who received a total of $134,233 in State service annuity payments.

For the period that the beneficiaries had received payments, the APA determined that OSERS has paid over $1.3 million dollars to beneficiaries for the State service annuity payments without authority to do so. According to OSERS management, no effort will be made to recover any of these overpayments.

Neb. Rev. Stat. § 79-9,100(8) (Cum. Supp. 2022) awards all plan members who were participants prior to July 1, 2016, the State service annuity, as provided by Neb. Rev. Stat. § 79-933 (Reissue 2014). However, nothing in statute directs the State service annuity to be paid to the member's beneficiary upon the death of the plan member.

A proper system of internal controls and sound management practices require procedures to ensure the State service annuity issues are reviewed and resolved.

Without such procedures, there is an increased risk for loss of plan assets.

Benefit Calculation Errors

Another significant issue that has not been addressed by OSERS pertains to the incorrect calculation of benefit payments. In the prior audit, the APA identified three retirement benefits with errors of greater than $10 per month. Those payments are detailed in the table below:

OSERS Monthly Benefit	APA Calc. Monthly Benefit	Monthly (Underpayment) or Overpayment	Description
$ 2,894.60	$ 2,913.43	($18.83)/month	In its calculation of final average compensation, OSERS made an adjustment to decrease the salary for one year by $289.06 but lacked support for the adjustment. Additionally, the OSERS calculation of the monthly benefit was $2,909.30; however, OSERS paid the retired member only $2,894.60 per month.
$ 687.45	$ 668.87	$18.58/month	This member had an extra half-year of service included in her retirement benefit calculation. There is no provision in any of the District labor contracts to grant a half-year of service for working 116 days during the 2003-2004 year.
$ 6,137.92	$ 6,165.21	($27.29)/month	This benefit calculation used an actuarial factor (.9148) that did not agree to the actuarial factors provided to OSERS by the actuary in August 2022 (.93309), which resulted in the benefit being understated by $122.71/month. Additionally, the member was awarded a half-year of service for working 159 days out of 274 days during 1989-1990. There was no provision of any labor contract to award a half- year of service at that time. The additional service credit overstated the benefit by $95.42/month. Therefore, a net underpayment of $27.29 was found.

A proper system of internal controls and sound management practices require procedures to ensure all benefit calculation errors are reviewed and resolved.

Without such procedures, there is an increased risk for loss of plan assets.

Insurance Costs

During the prior audit, the APA discussed the method to split insurance costs between the District and OSERS, noting that OSERS was charged 95% of cost of the invoices from First National Insurance Company (FNIC), totaling over $68,000. District accounting staff lacked documentation to support the share being charged to OSERS.

In calendar year 2023, District accounting staff explained that the FNIC insurance was now paid for completely by the District, while OSERS now paid for a different insurance policy. The APA questioned this explanation, as the FNIC policy explicitly named OSERS as the insured.

The image below is from the current policy being paid completely from OSERS funds and appears to cover other District insurance activities.

Item 5. **Insured Trusts** or **Plans**:
The Omaha School Employees' Retirement System
Blue Cross/Blue Shield of Nebraska Health Insurance
Self-insured Long Term Disability Plan Through United Health Care at Omaha
Plan 125
Health Reimbursement Account
403(b) Tax Deferred Savings Plan
VSP Vision
Omaha Public Schools Basic Life Insurance Plan
Omaha Public Schools Voluntary Supplemental Life

OSERS paid $40,948 during calendar year 2023 for a half-year of premium on the above policy. However, the FNIC policy – which relates more closely to OSERS activity – has a total premium amount of only $36,877.

A proper system of internal controls requires procedures to ensure that correct amounts are being charged to the retirement assets.

Without such procedures, there is a risk for loss of plan assets.

Finally, the APA found other concerns with the benefit and refunds payment processes:

- OSERS had used an incorrect consumer price index (CPI) amount in the system for members who retired between September 2014 and July 2015. OSERS has not determined whether adjustments to members' benefits are necessary.
- There was no secondary review of benefit calculations performed by the Retirement Benefits Manager.
- Checks are printed and signed prior to Board approval.
- There is no after-the-fact review of payment reports from the accounting system to ensure accounting entries agreed to amounts approved by the Board and reflect actual expenses.

A proper system of internal controls requires procedures to ensure the following: 1) a review of CPI amounts entered in the system is completed to determine all potential inaccurate payments; 2) benefit calculations are reviewed by a second individual; 3) checks are not printed and signed prior to board approval: and 4) after-the-fact reviews of claims are performed in the accounting system after claims are approved.

Without such procedures, there is an increased risk for inaccurate financial reporting, incorrect benefit and refund payments, and a loss of plan assets.

We consider this finding to be a significant deficiency.

> We recommend the District Board of Education and the OSERS Transition Board of Trustees work with OSERS management to ensure the findings from the current and previous audits are resolved appropriately PRIOR to the transition of the Plan's administration to NPERS. Of particular interest would be the remediation of the incorrect benefit and refund payments identified by the APA over the last few years – not only for the specific members tested but also for all members who could be affected by the same issues. We would also recommend the District Board of Education and the OSERS Transition Board of Trustees ensure appropriate timely responses are provided to the APA. Our final recommendation would be to review the insurance premiums being charged to OSERS and to correct the payments charged to system assets.

Management's Response: OSERS is actively working to recover overpayments of refunds processed in 2023. OSERS is also working with the Nebraska Public Employees' Retirement System (NPERS) to review all OSERS members' data as part of the transition of administration effective September 1, 2024. The incorrect benefit calculations noted in this, and prior audit reports will be an area of emphasis prior to the transition.

2. <u>Inaccurate Benefit Calculations</u>

<u>New Retirees – Benefit Calculation Errors</u>
The APA tested the calculation of benefit payments to 15 new retirees in calendar year 2023 and found errors in 10 of those calculations. The APA has found errors in the benefit calculations since we first audited OSERS for calendar year 2021, and OSERS has failed to implement our remedial recommendations. A summary of the calendar year 2023 errors and their causes is provided in the following table:

OSERS Actual Benefit	APA calculated benefit	Variance	Cause
$ 679.18	$ 680.58	$ (1.40)	OSERS used the incorrect option annuity factor for the payment option selected by the member. ($.14 overpayment) OSERS improperly reduced the State service annuity. ($1.54 underpayment)
$ 1,022.50	$ 1,000.74	$ 21.76	OSERS improperly included a half-year of service credit for a school year in which there was no provision for earning a partial year of service.
$ 831.90	$ 832.51	$ (0.61)	OSERS used the incorrect option annuity factor for the payment option selected by the member. ($.19 overpayment) OSERS improperly reduced the State service annuity. ($.80 underpayment)

OSERS Actual Benefit	APA calculated benefit	Variance	Cause
$ 2,565.79	$ 2,572.08	$ (6.29)	OSERS used the incorrect option annuity factor for the payment option selected by the member. ($.95 overpayment) OSERS improperly reduced the State service annuity. ($7.24 underpayment)
$ 1,080.83	$ 1,103.68	$ (22.85)	OSERS used the incorrect option annuity factor for the payment option selected by the member. ($14.94 underpayment) OSERS improperly reduced the State service annuity. ($7.91 underpayment)
$ 2,347.00	$ 2,289.75	$ 57.25	OSERS improperly included a half-year of service credit for a school year in which there was no provision for earning a partial year of service.
$ 539.92	$ 556.64	$ (16.72)	OSERS used the incorrect option annuity factor for the payment option selected by the member. ($2.04 overpayment) OSERS improperly reduced the State service annuity. ($18.76 underpayment) OSERS granted one full year of service credit for a year in which the member did not work enough days to earn a full year of service. Therefore, service credit used in the calculation was overstated by a half-year. ($ included in above calculations)
$ 776.54	$ 792.26	$ (15.72)	OSERS used the incorrect option annuity factor for the payment option selected by the member. ($.20 overpayment) OSERS improperly deferred the payment of the State service annuity. ($15.92 underpayment)
$ 3,245.05	$ 3,285.60	$ (40.55)	OSERS improperly deferred the payment of the State service annuity.
$ 4,127.56	$ 4,200.02	$ (72.45)	OSERS used the incorrect option annuity factor for the payment option selected by the member. ($35.21 underpayment) OSERS improperly deferred the payment of the State service annuity. ($37.24 underpayment)

Provided below is more detailed information regarding the cause for each of the errors detailed in the above table.

Actuarially Determined Reduction Factors

For the formula annuities, the option annuity factor is a reduction to the monthly benefit that results when a member chooses an optional form of 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. OSERS staff entered the option factors into the accounting system, which is used to calculate benefit amounts.

In our first audit of OSERS for calendar year 2021, the APA found that OSERS failed to maintain documentation to support the reduction factors used in its system. The APA asked OSERS to verify with its actuary that the factors used were correct. On August 6, 2022, OSERS' actuary provided the reduction factors, which did not agree to those in the OSERS system. OSERS failed to integrate these new factors into the benefit calculations; instead, the old, undocumented factors continued to be used.

During our current audit and noted in the table above, OSERS used an incorrect option annuity factor for 7 of the 15 new retirees tested.

Additionally, the APA found that OSERS improperly applied the formula option annuity factor to the member's State service annuity, which resulted in an improper reduction of the member's State service annuity. This error was included in 5 of the 15 members included in the table above.

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[.]*

A proper system of internal controls requires procedures to ensure that benefit payments are accurate by ensuing the reduction factors for the formula annuity options are the same as those provided by the actuary.

Without such procedures – as noted for the last three calendar years – the risk for incorrect benefit payments increases.

<u>State Service Annuities</u>

The APA has identified several issues related to the calculation of the State service annuity. The State service annuity is an annuity that is separate from the formula annuity. Statutes define this service annuity as follows: Neb. Rev. Stat. § 79-9,100(8) (Cum. Supp. 2022) provides the following:

> *Any member receiving a formula retirement annuity based on final average compensation who is a member prior to July 1, 2016, shall also receive the service annuity to be paid by the State of Nebraska as provided in sections 79-933 to 79-935 and 79-951.*

Neb. Rev. Stat. § 79-933 (Reissue 2014) says the following:

> *(1) <u>Upon retirement under section 79-931, a member or emeritus member shall receive a school retirement allowance which shall consist of the sum of:</u> (a) A savings annuity which shall be the actuarial equivalent, as determined by the retirement board, of the member's accumulated contributions at the time of his or her retirement or, in the case of an emeritus member, the savings annuity fixed by the retirement board at the time of his or her original retirement; and (b) <u>a service annuity to be paid by the State of Nebraska.</u>*
>
> *(2) The amount of any individual service annuity for (a) a full-time school employee hired on or before April 1, 1988, who retires with thirty-five or more years of service or who retires under the provisions of disability retirement, (b) <u>a full-time school employee who provided compensated service after April 1, 1988, but prior to July 19, 1996, if the service annuity commences on or after the member's sixty-fifth birthday, who retires with thirty-five or more years of service or who retires under the provisions of disability retirement, or</u> (c) an emeritus member shall be three dollars and fifty cents per month for each year of creditable service commencing with his or her retirement on or after May 19, 1981. For employees not enumerated in subdivision (a) or (b) of this subsection or for employees hired on or after July 19, 1996, if the service annuity commences prior to the member's sixty-fifth birthday, it shall be on an actuarially reduced basis. Each school employee or emeritus member who retired before July 1, 1973, and who is receiving a service annuity as of that date shall have such service annuity adjusted by the increase in the cost of living as determined by the difference between the Consumer Price Index for Urban Wage Earners and Clerical Workers from the date the service annuity commenced and July 1, 1973, except that such annuity shall not exceed three dollars and fifty cents monthly per year of service based on the same number of years of service that is currently being used to determine his or her service annuity. Such increased service annuity shall commence on July 1, 1973.*

(Emphasis added.)

Improper Deferment

Since our first audit for calendar year 2021, the APA determined that OSERS had improperly deferred the State service annuity for members less than 60 years old at retirement. There is no provision in statute that allows for the deferral of the State service annuity. As of the date of testing, there were 84 members whose State service annuity payment was deferred.

During testing in calendar year 2023, the APA found that OSERS had deferred the State service annuity for 3 of 15 new retirees tested, all of whom were under 60 years old at their effective retirement date.

Incorrect Calculation of Deferred Accounts

Additionally, for members whose State service annuity was deferred, OSERS is not properly calculating the benefit for those members. OSERS is calculating the benefit using the members' age as of the date they make the election to begin the State service annuity, rather than at their effective retirement date.

During separate testing of 15 retirees who had been receiving a benefit in the prior year, we found two retirees who had their deferred State service annuities calculated during calendar year 2023. The OSERS calculations for the service annuity for both members were incorrect. First, OSERS failed to calculate the State service annuity payment back to the effective retirement date, resulting in an underpayment to both members. Next, for one member, OSERS incorrectly calculated the actuarial reduction required because the member was not 60 years old, resulting in an overpayment of $12 per month for that member. These errors resulted in total underpayments of $350 and $1,097 to these members as of March 2024.

No COLA for State Service Annuity

Another issue raised by the APA since our first audit for calendar year 2021, OSERS has not applied the annual COLA to the State service annuity portion of the benefit, though the applicable statute states explicitly that the COLA applies to "any" annuity payment.

Neb. Rev. Stat. § 79-9,103(8) (Cum. Supp. 2022) provides the following:

> *Beginning January 1, 2000, and on January 1 of every year thereafter, for employees of Class V school districts who were members prior to July 1, 2013, a cost-of-living adjustment shall be made for <u>any annuity being paid pursuant to the act</u>, or pursuant to the provisions of the retirement system established by statute for employees of Class V school districts in effect prior to September 1, 1951, and on which the first payment was dated on or before October 3 preceding such January 1 adjustment date. The cost-of-living adjustment for any such annuity shall be the lesser of (a) one and one-half percent or (b) the increase in the consumer price index from the date such annuity first became payable through the August 31 preceding the January 1 adjustment date as reduced by the aggregate cost-of-living adjustments previously made to the annuity pursuant to this section.*

(Emphasis added.) A proper system of internal controls requires procedures to ensure that benefit payments are accurate by ensuring the proper calculation of the State service annuity and the calculation of the COLA for that annuity.

Without such procedures – as noted for the last three calendar years – the risk for incorrect benefit payments increases.

<u>Service Credit</u>

The APA has found issues with the service credit used in the benefit calculation since our first audit for calendar year 2021. These issues have gone unresolved since that time. In the current audit, the APA found errors in 3 of the 15 new member benefits tested.

For two members, OSERS included a half-year of service credit for years in which there was no policy for earning a partial year of service credit.

For one member tested, OSERS improperly adjusted the service credit, increasing it from a half-year to a full year without verification of the actual days worked. Upon the APA's verification of days worked, it was determined that the member should have received only a half-year of service credit.

Since the formula annuity is calculated using the member's final average earnings multiplied by years of service and the applicable formula factor, any error in the service credit will affect the benefit calculation. For the three members tested, the OSERS benefit calculation was not correct.

The Omaha Education Association (OEA) Master Agreements for both 1998-99 and 2002-03 contain the following:

> *Section IV(B) Length of Year of Experience*
> *For all purposes, including the adjustment of salaries and the computing of fringe benefits, 140 teaching days on duty during the regular school year shall be counted as a creditable school year . . . .*

The OEA Master Agreement for 2004-05 states the following:

> *Section IV(B) Length of Year of Experience*
> *For all purposes, including the adjustment of salaries and the computing of fringe benefits, 70 teaching days on duty during the regular school year semester shall be counted as a creditable half-year . . . .*

A proper system of internal controls requires procedures to ensure that benefit payments are accurate by ensuing the service credit for each retiring member is accurate.

Without such procedures – as noted for the last three calendar years – the risk for incorrect benefit payments increases.

<u>Other Documentation Issues</u>
The APA also found documentation issues in our testing of the benefit payments to members, as follows:

- For 8 of 15 new member benefits tested, OSERS failed to obtain adequate documentation to ensure that the age of the member was accurate. In these cases, OSERS obtained a copy of the driver's license to support the date of birth; however, Chapter 5 ("Evidence to Determine Age and Status"), Section 002 ("Proof of Age"), of the OSERS Rules and Regulations (adopted January 20, 2022) does not list the driver's license as an acceptable form of evidence for verifying a member's age.

- For 2 of 15 new member benefits tested, OSERS failed to ensure that all retirement applications were date stamped. The receipt date of each application and the member's termination date are needed to determine the member's proper effective retirement date. Due to the lack of documentation, we were unable to determine if the members' payments began timely.

Chapter 17 ("Benefit Options and Distribution Rules"), Section 002.05 ("Definitions"), of the OSERS Rules and Regulations (adopted January 20, 2022) 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.*

<u>Other Retiree Benefit Payment Errors</u>
The APA tested 15 payments to members who had received benefit payments prior to calendar year 2023 and 5 retirees whose payments ceased during calendar year 2023 and noted the following issues:

- One of 15 members tested died on September 6, 2023, and was entitled to a final payment for the month of September 2023. The September benefit payments included an increase and adjustments for the medical COLA. OSERS failed to provide the 2023 medical COLA increase to this member for her final payment, resulting in an underpayment of $54.

- One of 15 members tested had his benefit split with an alternate payee due to a Qualified Domestic Relations Order (QDRO). The QDRO did not provide a COLA to the alternate payee. However, OSERS split the January 2024 COLA between the member and alternate payee. As a result, beginning with the January 2024 payment, the member's benefit was underpaid, and alternate payee's benefit was overpaid by $21 per month.

- One of five retirees tested whose payment had ceased during the year had an inaccurate amount calculated as the payment continuing to the beneficiary. The error occurred because the member died in December 2022 and was entitled to the payment made in January 2023. That final payment to the member properly included the COLA increase. When the beneficiary's calculation was made, OSERS failed to include the January 2023 COLA in its calculation, resulting in an underpayment of $33 each month from February 2023 to December 2023, or approximately $363.

A proper system of internal controls requires procedures to ensure that benefits are calculated correctly, and QDROs are split in accordance with the terms of the court order.

Chapter 3 ("Materiality Amounts for Transactions"), Section 003.03 ("Recalculation of a Final Benefit"), of the OSERS Rules and Regulations (adopted January 20, 2022) includes the following:

> *The monthly retiree benefit payments that require recalculation will not be adjusted if the change in the monthly benefit amount is within +/- $10.00 per report of the original calculated final benefit.*

Without such procedures – as noted for the last three calendar years – there is an increased risk of incorrect benefit calculations.

We consider this finding to be a significant deficiency.

> We recommend the District Board of Education and the OSERS Transition Board of Trustees work with OSERS management to ensure that member benefit calculations are accurate prior to the transition to NPERS. OSERS should perform a review of all retirees receiving a reduced formula annuity, those who have had the State service annuity deferred, its QDRO payments, and payments to beneficiaries to determine whether the monthly errors are +/- $10 and in need of adjustment.

Management's Response: OSERS is actively working with NPERS to review all OSERS members' data as part of the transition of administration effective September 1, 2024. The errors noted in this finding will be an area of emphasis prior to the transition.

3. <u>Refund Issues</u>

As noted in our prior audit, as well as in Comment and Recommendation Number 1 ("Poor Management Oversight") above, OSERS improperly paid refunds to members in February and March 2023. In our current year refund testing of 26 refunded accounts, the APA found six additional overpayments that are detailed in the table below.

Date of Refund	Actual Refund	APA Calculated Refund	Overpayment	Description
1/6/2023	$ 56,183	$ 2,780	$ 53,403	The member had an older account on which he was receiving current monthly benefit payments. That account balance was not reduced to zero when the benefit payments started. When the member returned to employment, a second account was created. When the member requested a refund of that account, OSERS inadvertently used the original account to calculate the refund payment because that account's balance had not been reduced to zero. The difference in the account balances was significant.

Date of Refund	Actual Refund	APA Calculated Refund	Overpayment	Description
2/14/2023	$ 20,289	$ 19,874	$ 415	OSERS was unable to determine the cause of this error. The staff member who manually calculated the refund is no longer with OSERS, and documentation of the calculation was not maintained.
4/13/2023	$ 14,750	$ 14,708	$ 42	Refunds paid on this date incorrectly included an additional month of interest.
4/13/2023	$ 13,955	$ 13,915	$ 40	Refunds paid on this date incorrectly included an additional month of interest.
4/13/2023	$ 12,277	$ 12,247	$ 30	Refunds paid on this date incorrectly included an additional month of interest.
4/13/2023	$ 6,397	$ 6,379	$ 18	Refunds paid on this date incorrectly included an additional month of interest.

Since our initial audit for calendar year 2021, the APA found that OSERS had failed to zero out account balances after refunds were paid or benefits were calculated, which is a manual process that must be completed in the system. OSERS has failed to resolve this issue since first being informed of it.

When accounts are not properly reduced to zero after payment of a refund, there is a risk is that the account could inadvertently be paid out a second time. This is exactly what happened in the first item in the above table. The refund was significantly overpaid because OSERS paid the refund based on the member's original account balance, for which the member was receiving a monthly retirement benefit. OSERS identified the overpayment in March 2023 and sent a letter to the member requesting repayment. As of our testing in March 2024, the $53,403 overpayment had not been repaid, and OSERS had taken no further action to recover the overpayment.

In our calendar year 2023 testing of refund payments, the APA found that 24 of 26 members' account balances had not been reduced to zero, even though a refund had been paid. From our calendar year 2022 testing, the APA had identified five accounts that had not been reduced to zero and were not corrected during calendar year 2023.

Neb. Rev. Stat. § 79-992(1) (Cum. Supp. 2022) states the following, in relevant part:

> *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[.]*

Neb. Rev. Stat. § 79-978(1) (Cum. Supp. 2022) states the following:

> *Accumulated contributions means the sum of amounts contributed by a member of the system together with regular interest credited thereon[.]*

Finally, the APA found that 2 of 26 refunds were paid prior to the earliest date allowed per OSERS Rules and Regulations.

According to Section 4-003.04 ("Timing of Distribution") of the OSERS Rules and Regulations (adopted January 20, 2022), a distribution of a refund "shall not occur before the later of four calendar months after the members' termination date or 20 business days after OSERS receives a complete and valid application for refund."

A proper system of internal controls requires procedures to ensure the following: 1) refunds are paid accurately; 2) member account balances are reduced to zero after the refund; and 3) payment terms comply with OSERS Rules and Regulations.

Without such procedures, there is an increased risk that refunds will be overpaid with assets used to fund the plan.

We consider this finding to be a significant deficiency.

We recommend the District Board of Education and the OSERS Transition Board of Trustees work with OSERS management to ensure that all overpayments of refunds are recovered, and account balances are reduced to zero. Additionally, all refunds should be paid in accordance with OSERS rules and regulations. It is critical to correct these issues prior to the transition of the administration to NPERS.

Management's Response: OSERS is actively working to recover overpayments of refunds processed. OSERS will ensure that all refunded account balances are reduced to zero prior to the transition of administration to NPERS.

4. PeopleSoft System Issues

The APA found the following issues with information in the OSERS' system used to track pension data.

Inaccurate Reporting and Actuary Data

During testing of member contributions, new members, and non-participating employees, the APA found that contributions had not posted correctly to the members' accounts for 7 of 33 members tested, as shown in the table below:

Member #	Actuary File Balance at 12/31/2023	APA balance at 12/31/2023	Variance	Contribution Months Missing
1	$ 555	$ 1,228	$ (673)	September and October 2023
2	$ 492	$ 711	$ (219)	September and October 2023
3	$ 973	$ 1,910	$ (937)	September and October 2023
4	$ 737	$ 822	$ (85)	October 2023
5	$ 170	$ 757	$ (587)	September, October, and November 2023
6	$ 151	$ 713	$ (562)	September, October, and November 2023
7	$ 775	$ 1,069	$ (294)	September and October 2023

OSERS appeared to be unaware of the issue at the time of our testing. The error appeared to affect members whose first contributions were from paychecks issued in August, September, or October 2023. Our estimates show a potential of 573 accounts affected, with a total balance understatement of $463,501.

In our follow-up of prior year purchase of service issues, the APA identified two members whose account balances were also incorrect as of December 31, 2023, as detailed in the following table:

Member	Missing Interest	Description
1	$ 23,637.84	Two errors were found in this member's account. First, all interest that had accumulated in the member's account through February 2023, totaling $22,551.48, was reduced to zero on March 31, 2023. Second, no interest was posted to the member's account for March and April 2023. The APA calculated the missing interest to be $1,086.36 for this error. The total missing interest on the member's account was $23,637.84.
2	$ 1,302.88	Two errors were seen in this member's account. First, all prior interest on the member's account, totaling $356.68, was reduced to zero in November 2022. Second, no interest was posted to this member's account from November 2022 through April 2023. The APA calculated that the member was missing $946.20 of interest related to this error. The total missed interest was $1,302.88.

These incorrect balance issues were also questioned by the actuary. Each year, OSERS runs a query of its system to provide member data to the actuary. As a normal part of that process, the actuary compares the current year data file to the prior year data file and sends OSERS a list of questions on the data before performing the valuation procedures. The submission of accurate data is vital to the actuary valuation process.

Due to the errors identified in our testing of the member data, the APA requested the list of actuary questions on the data. The following table contains a list of concerning issues identified by the actuary, which includes the issues noted by the APA above.

Description
No account balances: Eight individuals with account balances in March 2024 were not included in the data supplied to the actuary. OSERS could not explain why the account balances were not included in their data file.
Decrease in account balances: The actuary found decreases in the account balances of 113 members from calendar year 2022 to calendar year 2023. Decreases in these account balances would not be expected. The APA also identified some of these issues in our contribution testing included above.
Account balance but no service credit: The actuary identified 40 members who had an account balance but no service credit. This appears to be due to the issues with part-time employees who become eligible for plan participation. The system is not granting service credit for the members who are part-time.
Service years decreased: The actuary found 7 members whose years of service credit decrease from the prior calendar year.
No service credit or account balance: The actuary identified 45 members listed as active or terminated-deferred members without both an account balance and service credit. Upon review, most of the members seemed to have previously taken a refund but had since returned to employment with the District and were again making contributions.
Vested balance changes: The actuary identified 351 terminated members whose vested balance had changed. The vested balance is the benefit the member is currently eligible for based on the years of service and final average earnings. The vested balances for these members would not be expected to change. The APA determined that in some cases the system was not calculating the final average earnings correctly.

Neb. Rev. Stat. § 79-989(1) (Cum. Supp. 2022) provides the following:

> *The board of education shall have available records showing the name, address, title, social security number, beneficiary records, annual compensation, sex, date of birth, length of creditable and noncreditable service in hours, standard hours, and contract days, bargaining unit, and annual contributions of each employee entitled to membership in the retirement system and such other information as may be reasonably requested by the board of trustees until September 1, 2024, and by the retirement board beginning September 1, 2024, regarding such member as may be necessary for actuarial study and valuation and the administration of the retirement system. This information shall be available in a timely manner to the board or retirement board, as applicable, upon request.*

Good internal controls require policies and procedures to ensure that the member account data and the data provided to the actuary is complete and accurate.

> We recommend the District Board of Education and the OSERS Transition Board of Trustees assist OSERS management in a process to clean up the data issues observed in the audit, prior to the transition to NPERS. For the items included in this finding, OSERS should review all of the data to ensure accurate data is also provided to the new administrator.

<u>User Access and Audit Trail</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, four users can override fields used in the system calculation or update a table – all without a secondary review. None of the four users had the ability to create a new employee record.

- 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.

- During prior year testing, it was noted that PeopleSoft was set up to maintain a background table of all changes to bank information. However, during the current audit, it was noted this activity was no longer tracked, and a history of changes to bank information was no longer available.

  For 6 of 15 new members tested and 2 of 15 retirement payments tested, there was not adequate documentation that the member authorized the direct deposit information due to the lack of history tracking.

- 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 audits.

A proper system of internal control requires procedures to ensure the following about 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 consider this finding to be a significant deficiency.

> 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's Response: OSERS is actively working with the NPERS to review all OSERS members' data as part of the transition of administration effective September 1, 2024. The information noted in the actuaries' review of valuation data will be updated prior to the transfer of administration to NPERS.

5. <u>Service Credit</u>

Service credit earned by members is an important component of the benefit annuity calculation upon retirement. As noted in Comment Number 2 ("Inaccurate Benefit Calculations") above, even a slight difference of one-half year of service in the annuity calculation can cause significant changes to a member's monthly benefit payment. In the table included in Comment Number 2, there were two members whose only error in the calculation of the monthly benefit was due to service credit errors. Both had an extra one-half year of service included in the benefit calculation. Both members' benefit calculations were overstated – one by $21.76 per month and one by $57.25 per month.

When the APA tests member contributions, service credit earned is also tested. In our audits dating back to calendar year 2021, the APA has identified issues with the accumulation of service credit. During our calendar year 2023 testing, the APA found issues with the service credit earned for 12 of 25 members tested. Additionally, the APA noted that no service credit was accrued for three of three part-time employees tested who met eligibility during calendar year 2023 and began participating in the plan.

The District used certain coding in the PeopleSoft system to accumulate service credit through a special accumulator code called OPN. All issues noted in the table below for total service credit earned as of December 31, 2023, were caused by errors in how payroll was coded to OPN.

	Service Years Credited Through 12/31/2023	APA Calculated Service Years at 12/31/2023	Variance	Description
Understated Service Credit at 12/31/2023				
1	0	1.6	(1.6)	On the paycheck tested, the APA determined the OPN hours were understated by 51 hours because no hours were coded to OPN. The member became pension eligible as a part-time employee in August 2022. However, the system failed to accumulate hours for part-time pension eligible employees. Therefore, the employee had a service credit balance of zero as of 12/31/2023.
2	2.4	2.5	(0.1)	This member earned 993.25 hours of service during the period of 9/1/2021 - 8/31/2022. The member's service credit was understated because 21 holiday hours were incorrectly excluded. Members who join the plan on or after July 1, 2018, earn service credit for compensated holiday hours. However, the system is not properly programmed to accumulate the holiday hours as creditable service.
3	4.5	4.6	(0.1)	Despite being a full-time teacher, this member did not earn a full year of service credit for the period 9/1/2021 through 8/31/2022. School staff appear to have overridden some of her regular hours worked when entering the extra duty pay, which understated her service credit.
4	0	0.4	(0.4)	As noted previously, the system did not accumulate part-time pension eligible work hours as service credit. This part-time employee was enrolled in the retirement plan as of 8/28/2023. However, while contributions were properly deducted from the employee's pay, the hours worked were not coded to the OPN accumulator code and were not reported as service credit.
5	0	0.4	(0.4)	As noted previously, the system did not accumulate part-time pension eligible work hours as service credit. This member was enrolled in the retirement plan as of 8/28/2023. However, while contributions were properly deducted from the employee's pay, the hours worked were not coded to the OPN accumulator code and were not reported as service credit.
6	0.3	0.4	(0.1)	As noted previously, the system did not accumulate part-time pension eligible work hours as service credit. This member was enrolled in the retirement plan as of 8/28/2023. However, while contributions were properly deducted from the employee's pay, the hours worked were not coded to the OPN accumulator code and were not reported as service credit until the member transferred to a full-time position on 10/23/2023.
Overstated Service Credit at 12/31/2023				
7	1.4	0.6	0.8	At 12/31/2023, the employee had 599 hours OPN, which equates to 0.5 years of service. However, the employee also had 23 holiday hours paid from 9/1/2023 to 12/31/2023 that were not properly included in the service credit. Had those holiday hours been included, the member would have had 622 hours OPN, or 0.6 years. The difference is a 0.1-year understatement. Additionally, the employee was incorrectly awarded 0.9 years of service credit for time worked prior to becoming a member. All summer school hours worked are coded to OPN, whether the employee is an eligible member of the system. When the member later became eligible and began contributions, the system accumulated the summer school hours worked when the employee was not a contributing member, overstating the member's service credit by 0.9 hours. Combined with understatement noted above, the net overstatement of service credit for this member is 0.8 years.

The APA also identified service credit issues specific to the paycheck tested, as noted in the table below:

	Paycheck Date Tested	Service Hours Earned for Paycheck	APA Calc Service Hours Earned for Paycheck	Variance	Description
Understated Service Credit for Pay Period Tested					
8	12/15/2023	165.8	168.3	(2.5)	OSERS did not include extra duty pay for new teacher attendance meetings or teacher in-service hours in OPN hours. These hours were outside of the regular workday, so they should have been included in service credit. OSERS service credit was understated by 2.5 hours for this pay period.
9	5/15/2023	160	163	(3)	OSERS did not include extra duty pay for teacher in-service in the OPN Hours. These hours were outside of the regular workday, so they should have been included in service credit. Because these hours were not coded to OPN, OSERS service credit was understated by 3 hours for this pay period.
10	8/18/2023	30.25	38.25	(8)	OPN hours on the paycheck tested were understated by 8 holiday hours. Members who join the plan on or after July 1, 2018, should receive service credit for compensated holiday hours. However, the system is not set up to count the holiday hours as creditable service.
11	6/15/2023	192.77	195.25	(2.48)	OSERS did not include extra duty pay for in-service workshop pay or teacher in-service hours in OPN hours. These hours were outside of the regular workday, so they should have been included in service credit. Because these hours were not coded to OPN, OSERS service credit was understated by 8 hours for this pay period. OSERS also coded extra period/student hours to OPN. These hours were worked during the normal workday and should not have been included in service credit. OSERS service credit was overstated by 4.69 hours for this pay period. OSERS coded lost plan time hours to OPN. These hours were worked during the normal workday and should not have been included in service credit. OSERS service credit was overstated by 0.83 hours for this pay period. Net understatement of hours for the pay period was 2.48.
12	1/13/2023	115.23	122	(6.77)	OSERS did not include tutor pay hours in OPN hours. These hours were outside of the regular workday, so they should have been included in service credit. OSERS service credit was understated by 10 hours for this pay period. OSERS coded lost plan time hours to OPN. These hours were worked during the normal workday and should not have been included in service credit. OSERS service credit was overstated by 3.23 hours for this pay period. Net understatement of hours was 6.77.
13	2/15/2023	169.5	173.16	(3.66)	OSERS did not include tutor pay hours in OPN hours. These hours were worked outside the normal workday and should have been included in service credit. OSERS service credit was understated by 5.16 hours for this pay period. OSERS incorrectly coded lost plan time hours to OPN. These hours were worked during the normal workday and should not have been included in service credit. OSERS service credit was overstated by 1.5 hours for this pay period. Net understatement of hours was 3.66.
Overstated Service Credit for Pay Period Tested					
14	12/15/2023	188.52	160	28.52	OSERS coded extra period/student hours to OPN. These hours were worked during the normal workday and should not have been included in service credit. OSERS service credit was overstated by 28.52 hours for this pay period.
15	10/13/2023	187.15	184	3.15	OSERS coded lost plan time hours to OPN. These hours were worked during the normal workday and should not have been included in service credit. OSERS service credit was overstated by 3.15 hours for this pay period.

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

> *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.*

A proper system of internal controls requires 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 consider this finding to be a significant deficiency.

> We recommend the District Board of Education and the OSERS Transition Board of Trustees work with OSERS management to ensure service credit for each member is accurate prior to the transition to NPERS.

Management's Response: OSERS is actively working with the NPERS to review all OSERS members' data as part of the transition of administration effective September 1, 2024. OSERS is also collaborating with NPERS to develop accurate reporting of service credit by OPS to NPERS on an ongoing monthly basis after the transition of administration.

6. <u>Death Audit Procedures and Overpayments</u>

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. OSERS uploads member data to the vendor quarterly. However, the APA noted that OSERS did not document the member information provided to the vendor during calendar year 2023.

The APA performed its own review of member deaths and found that three members who died during calendar year 2023 were still receiving monthly benefit payments into 2024. OSERS was unaware that these members were deceased until the APA brought it to their attention.

The table below summarizes the overpayments to these three members through June 2024:

Date of Death	APA Calculated Date of Last Check	Last Check	Number of Overpayments	Total Overpayments	Notes
5/19/2023	6/2/2023	6/3/2024	12	$2,966.21	OSERS continues to make payments to this individual. The payments in July and August 2023 were direct deposited into a bank account. In September 2023, OSERS began writing checks to this member. Checks from September 2023 to January 2024 (last bank records APA had access to) have not been cashed.
7/12/2023	8/3/2023	3/1/2024	7	$2,492.58	The APA found an obituary for this individual. OSERS reversed the January through March 2024 payments after the APA brought this to their attention.
7/19/2023	8/3/2023	6/3/2024	10	$3,604.20	The APA found an obituary for this individual. However, OSERS continues to make payments to this individual. The payments from OSERS are direct deposited into a bank account.

It is unknown why the vendor used by OSERS failed to flag these accounts as deceased since they had been reported as a death to the State of Nebraska.

The APA also noted that OSERS failed to stop benefit payments to one member who had died, resulting in a $2,814.83 overpayment for one month. OSERS was unaware of the overpayment until notified by the APA and could not explain why it occurred.

A proper system of internal controls requires procedures to ensure that payments to members or beneficiaries cease upon death.

Without such procedures, there is an increased risk for overpayments and loss of system assets.

> We recommend the District Board of Education and the OSERS Board of Trustees work with OSERS management to ensure payments stop upon death of members. Any overpayments should be recovered by OSERS.

Management's Response: OSERS will work to recover the overpayments noted in the finding prior to the transfer of administration to NPERS.

7. <u>Accounting and Disclosure Errors</u>

In each of the three years since the APA has audited OSERS, there have been issues with incorrect accounting entries. The APA is including the entries below as examples of the errors made during calendar year 2023:

<u>Entry #1</u>
In this first entry, the District accounting staff incorrectly calculated the investments receivables and payables amounts as of December 31, 2023, despite making the same error in the prior year. At that time, the APA reviewed the necessary calculation of the entry with the District CFO and Controller.

The entry failed to include certain investment accounts receivables and payables from the custodial bank statements. Without a proper entry to record the investment accruals, the total investment on the financial statements would not agree to the total investments in the footnotes. Therefore, an adjustment was necessary and is shown below:

Accounts	OSERS Entry	APA Entry	Required Adjustment
Investment Asset	$ 31,838,793.58	$ 31,795,205.77	$ (43,587.81)
Investment Receivables	$ 82,000,111.56	$ (82,158,317.70)	$ 158,206.14
Investment Payables	$ (113,838,905.14)	$ (113,953,523.47)	$ (114,618.33)

The District accounting staff corrected this entry.

Entry #2

In April 2023, OSERS recorded a $128,050.15 refund to a member in the accounting system. This refund was never paid to the member. After the APA made OSERS aware of the system issue related to incorrect interest causing incorrect balances in the prior audit, an attempt was made to cancel this original payment in the system. However, District accounting staff failed to make the correct entries in the accounting system to cancel the voucher, which resulted in an understated cash balance and overstated retirement refund expense. Furthermore, the Federal tax withholding of $25,630.03 on this original payment was remitted to the Internal Revenue Service (IRS), which District accounting staff did not realize.

A subsequent refund in the correct amount of $108,808.78 was issued and paid to the member.

Issues like this have been reported since the APA began auditing OSERS.

After the APA brought this to the District accounting staff's attention, a journal entry was recorded, which is seen below, to reverse completely the coding of the original voucher; however, that correcting entry failed to recognize the distribution of $25,630.03 to the IRS, which has resulted in an overstated cash balance and understated receivables. The APA's entry is an adjustment to the record the actual tax distribution of $25,630.03.

Accounts	OSERS Entry	APA Entry	Required Adjustment
Cash	$ 128,150.15	$ (25,630.03)	$ 102,520.12
Receivables	$ -	$ 25,630.03	$ 25,630.03
Retirement Refunds Expense	$ (128,150.15)	$ -	$ (128,150.15)

Entry #3

In calendar year 2022, OSERS issued overpayments to two beneficiaries upon a member's death. Instead of receiving $47,352.53, each beneficiary received $100,726.28, for a total overpayment of $106,747.50. OSERS became aware of the overpayments when one of the beneficiaries contacted the agency about the amount of his share of the payment.

One beneficiary returned $16,295.02, which was the difference in net pay from the original calculation and the recalculated amount. Therefore, at December 31, 2022, the outstanding amount owed was $90,452.48.

After requesting a refund from the IRS for the Federal tax withholding overpayment, OSERS received a $31,179.31 refund on April 28, 2023. The receipt of the refund from the IRS was not recorded into the accounting system until July 18, 2023 – 81 days after its receipt.

District accounting staff recorded the receipt from the IRS as a revenue rather than as a reduction of the receivable balance. Additionally, although District accounting staff calculated the receivable from the IRS to be $31,618.01, only $31,179.31 was received, which also caused the receivable balance to be incorrect. The APA's entry records the IRS payment as an increase in cash and a decrease in receivable for the actual amount received. This adjustment was not made.

Accounts	OSERS Entry	APA Entry	Required Adjustment
Cash	$ 31,179.31	$ 31,179.31	$ -
Receivables	$ (31,618.01)	$ (31,179.31)	$ 438.70
Revenue	$ (31,179.31)	$ -	$ 31,179.31
Retirement Annuities Expense	$ 31,618.01	$ -	$ (31,618.01)

The APA also found that OSERS had not followed up on the $59,273.17 outstanding receivable balance since September 2023. One of the beneficiaries has not remitted any of his overpayment back to OSERS – still owing $53,373.75. The other beneficiary still owes $5,899.42 on the amount overpaid. OSERS does not appear, therefore, to be taking timely action to recoup the overpayment.

Entry #4
The next entry is also related to the refund of prior overpayments. In December 2023, OSERS received a refund of an overpaid account. Upon receipt, District accounting staff erroneously recorded two entries to increase cash by $10,445, with an offsetting entry to record a negative expense.

In addition to noting the duplication of the receipt of the refund in the accounting system, the APA found that no receivable was set up for the overpayment, which was $9,307.50 at that time, as of December 31, 2022. The APA made an entry to record the cash correctly, as a receivable, and then to record the expenses correctly upon receipt thereof.

Accounts	OSERS Entry	APA Entry	Required Adjustment
Cash	$ 20,890.00	$ 10,445.00	$ (10,445.00)
Receivables	$ -	$ 9,307.50 $ (9,307.50)	$ -
Retirement Annuities Expense	$ (20,890.00)	$ (9,307.50) $ (1,137.50)	$ 10,445.00

After this error was brought to District accounting staff's attention, an entry was made to correct the duplicate activity; however, rather than recording a receivable for the $9,307.50, staff credited a receipt account, which resulted in overstated calendar year 2023 revenues.

Entry #5
This entry is related to the refund of two overpayments that occurred during calendar year 2023. One refund amount was $4,970.03, and the other was $4,978.86. Similar to the previous entry, District Accounting staff processed two entries for the receipt of each refund, which resulted in the overstatement of cash. One entry was recorded originally as a revenue while the rest of the entries were recorded as negative expenses. Taxes related to these entries totaled $1,785.75.

The APA entry serves to reflect properly the cash, revenue, and expense accounts. This adjustment was not made.

Accounts	OSERS Entry	APA Entry	Required Adjustment
Cash	$ 21,683.53	$ 11,734.64	$ (9,948.89)
Revenue Account	$ (4,970.03)	$ -	$ 4,970.03
Retirement Annuities Expense	$ 16,713.50	$ (11,734.64)	$ 4,978.86

Footnote and Required Supplementary Information Disclosures
The APA also found several errors in the footnotes and required supplementary information provided by OSERS, as follows:

- In its Cash and Investments footnote, OSERS had significant errors in reporting investments according to the fair value hierarchy. The Commingled Funds portion of the table was misstated between Levels 1 and 2 by over $362 million.
- The Derivative Instrument portion of the Cash and Investment Footnote had misstatements in the Change in Fair Value, Fair Value, and Notional amounts. The notional value of fixed income futures was the most significant error, totaling over $3.5 million.
- The OSERS footnotes for Net Pension Liability included inaccurate information for the mortality assumptions, projected cash flow, and the sensitivity analysis that did not agree to the OSERS Governmental Accounting Standards Board (GASB) Statement Number 67 report.
- OSERS failed to include the year 2014 in the Schedule of Net Pension Liability and, therefore, 10 years of data was not provided as required by GASB Statement Number 67.
- OSERS failed to update the Notes to the Required Supplementary Information and instead included the same information from the calendar year 2022 audit.

As discussed previously, these entries and disclosures have been identified and discussed with District accounting staff in prior years. It is clear that additional training is required for staff who process the refund overpayment entries. Additionally, there should be a secondary review of the entries by the Controller and CFO until such time staff understand the entries to be made.

A proper system of internal controls requires procedures to ensure the accounting entries are accurate. Without such procedures, there is an increased risk for material misstatement of the financial statements.

We consider this finding to be a significant deficiency.

> We recommend the District Board of Education and the OSERS Transition Board of Trustees work with the District accounting staff to ensure a proper understanding of the refund entries is obtained. We also recommend the CFO review the accrual entries, footnote disclosures, and required supplementary information prepared by the Controller to ensure their accuracy. Finally, a review of the general ledger should be completed periodically to identify potential duplicate transactions.

Management's Response: OPS Accounting & Finance staff will review the procedures for errors noted in the finding.

8. <u>Purchase of Service Credit</u>

Since our calendar year 2021 audit, the APA has identified several issues related to the calculation and recording of purchases of service credit. OSERS failed to follow up on the issues identified in the previous audits.

During the current audit, the APA tested one of three purchases of service credit initiated and completed in calendar year 2023 and noted the following:

Issue	Description
Incorrect Cost Calculation	This member purchased three years of credit for service worked in another Nebraska school district. OSERS' calculation of the cost of this purchase included interest through August 2024, even though the member completed the purchase in December 2023. Additionally, the OSERS calculation used the wrong actuarial assumed rate of return for the interest in certain years. These errors resulted in the member overpaying $1,065.84 for the service credit purchase.
No Application	OSERS did not have an application on file for the purchase.
No District Matching Contribution	The District failed to make the required matching contribution, which would have been $16,683.61, based upon the APA's calculation of the purchase cost. OSERS staff acknowledged being unaware that the District match was required.
Member's Account Balance and Service Credit not Adjusted	OSERS failed to update the member's account to include the purchased amount in the account balance or the years purchased in the member's service credit total.
Prior Year Purchases Not Updated	OSERS failed to update the service years and account balance for two members tested in the prior year. At that time, the APA found that one member had been credited with only 5 out of the 6.9 purchased. The other member had been credited for only 1.5 out of 2.8 years purchased. No updates have been made to the accounts since the retirement of the previous benefits manager in July 2022.

The provisions related to prior service credit purchases can be found at Neb. Rev. Stat. § 79-991(1) (Cum. Supp. 2022), which states, as is relevant, the following:

> *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) A member who desires to purchase prior service credit shall make written application to the administrator of the retirement system . . . .

(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.

* * * *

(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.

A proper system of internal controls requires procedures to ensure the following: 1) costs are calculated correctly and in accordance with State statute; 2) applications are received and maintained; 3) the District match is made and is accurate; and 4) payments and service credit are recorded timely in member accounts.

Without such procedures, there is an increased risk that members will not receive the benefit they are entitled to, and the cost of 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.

> We recommend the District Board of Education and the OSERS Transition Board of Trustees work with OSERS management to review all prior purchases of service credit to determine if the correct amounts were paid, ensuring also that the amounts purchased and service years were credited to the member accounts. We recommend this happen prior to the transition of the administration of the system to NPERS.

Management's Response: OSERS is working to have these service credit issues corrected prior to the transfer of administration to NPERS.

9. <u>Issues on Accounts with Qualified Domestic Relation Orders (QDROs)</u>

Upon receipt of a court certified QDRO involving benefits under OSERS and the determination that the QDRO is qualified, OSERS is required to segregate the alternate payee's interest in the member's benefit into a separate account pending distribution. Based on language in the QDRO, the alternate payee is legally entitled to a portion of the member's benefit.

The APA identified seven alternate payees (AP), whose share of the members' medical COLA was incorrect. In all seven cases, the alternate payee received none of the members' medical COLA, even though the QDRO entitled the alternate payee to a share of the medical COLA. The following table is a summary of the seven accounts in error and the total underpayments to the alternate payees, ranging from $162 to $3,315, which were paid to the members.

#	Court Ordered QDRO Share to AP	Share Received by AP	Medical COLA Start Date	Incorrect Months of Medical COLA	Total Underpayment to AP
1	25.72%	0%	10/3/2023	6	$ 162.00
2	45%	0%	10/3/2020	42	$ 2,133.00
3	50%	0%	10/3/2019	54	$ 3,315.00
4	32.70%	0%	10/3/2022	18	$ 608.22
5	50%	0%	10/3/2022	18	$ 930.00
6	31%	0%	10/3/2023	6	$ 195.30
7	50%	0%	10/3/2020	42	$ 2,475.00

At the time of our testing, OSERS staff was unaware of these issues with the medical COLA payments to alternate payees. In our discussions, it was determined that the alternate payee share of the medical COLA had to be manually split because the system did not properly calculate the split for the QDRO, and then the benefit in the system had to be manually updated.

A proper system of internal controls requires procedures to ensure that the terms of the QDRO were met.

Without such procedures, there is an increased risk of inaccurate payments to members and alternate payees.

> We recommend the District Board of Education and the OSERS Transition Board of Trustees work with OSERS management to ensure members and alternate payees are receiving the proper benefit payment in accordance with the terms of the QDRO. We recommend these issues be resolved prior to the transition to NPERS.

Management's Response: OSERS is working on reviewing and correcting the Medical COLA for alternate payees under a QDRO prior to the transfer of administration to NPERS.

* * * * *

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.

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

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