NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Charlie Janssen
State Auditor

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Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
auditors.nebraska.gov

June 24, 2022

Cecelia Carter, Executive Director
Omaha School Employees' Retirement System
3215 Cuming Street
Omaha, Nebraska 68131

Dear Ms. Carter:

Attached is a copy of the audit report and management letter of the Omaha School Employees' Retirement System (OSERS) for the year ended December 31, 2021. You can also access the audit report and management letter on our website at auditors.nebraska.gov.

If you have any questions concerning this report, please do not hesitate to write or call.

Sincerely,

Charlie Janssen
State Auditor

Enclosure

cc: Shavonna Holman, President – OPS Board
Patrick Bourne, President – OSERS Board
Shane Rhian, Controller
Janis Elliot, Board Chairperson – NPERS

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, 2021

Issued on June 24, 2022

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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 the Executive Director. The State of Nebraska has the authority under which OSERS provisions and obligations may be amended or established.

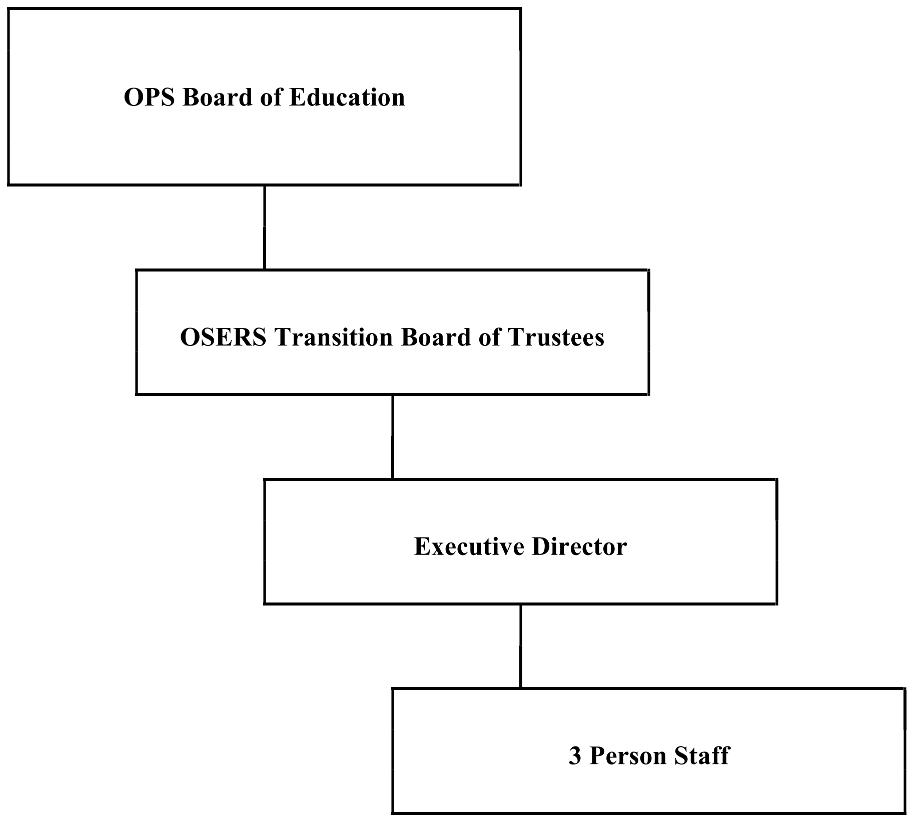
Beginning July 1, 2021, the District's board of education, by a majority vote of all its members, appointed seven trustees to serve, as directed by the board of education, to facilitate the transition and transfer of management and general administration of the retirement system until September 1, 2024, when the administration transfers to the Nebraska Public Employees Retirement Board. The Transition Board of Trustees is composed as follows:

- 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 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

Shavonna Holman, Ed.D. President	Jane Erdenberger Vice President	Tracy Casady Board Member
Spencer Head Board Member	Nancy Kratky Board Member	Ricky Smith Board Member
Margo Juarez Board Member	Marque A. Snow Board Member	Nick Thielen Board Member

Cheryl J. Logan, Ed.D
Superintendent

OSERS Transition Board of Trustees

Cheryl J. Logan, Ed.D Superintendent	Jane Erdenberger Board of Education Representative	Spencer Head Board of Education Representative
Sharon Block Active Member	Faith Johnson Active Member (Teacher Representative)	Patrick Bourne Community Business Representative

Scott Herchenbach
Community Business Representative

OSERS Management

Cecelia M. Carter Executive Director	James Ellis Retirement Benefits Manager

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

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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 accompanying Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position of the Omaha School Employees' Retirement System (OSERS), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise OSERS' basic financial statements, as listed in the Table of Contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of OSERS, as of December 31, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of OSERS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter
As discussed in Note 1, the financial statements of OSERS are intended to present the financial position and the changes in financial position of only that portion of the Douglas County School District #0001 (District) that is attributable to the transactions of OSERS. They do not purport to, and do not, present fairly the financial position of the District as of December 31, 2021, 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 twelve 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 error or fraud, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

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

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

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

We are required to communicate those charged with governance, 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 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 30-32, 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 21, 2022, on our consideration of OSERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OSERS' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OSERS' internal control over financial reporting and compliance.

Zachary Wells

June 21, 2022

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Thousands of Dollars)

Overview
The following overview is a discussion and analysis of the financial activities of the School Employees' Retirement System of the Douglas County School District #0001 (District), more commonly known as the Omaha School Employees' Retirement System (OSERS), as of and for the fiscal year ended August 31, 2021, along with activity as of December 31, 2021. Its purpose is to provide explanation and insights into the information presented in the financial statements, notes to the financial statements, and required supplementary information.

Financial Highlights
In 2021, the Nebraska Legislature passed Legislative Bill (LB) 147, which changed the reporting period for OSERS from a fiscal year end of August 31 to a calendar year end of December 31. Due to this change in reporting period and overlapping financial information from this change, OSERS is presenting current results for the calendar year ended December 31, 2021, as well as comparative results for fiscal years ended August 31, 2021, and 2020. Management's financial analysis below will focus on changes between the financial statements for the two most recent fiscal years.

The net position of OSERS, which represents funds available to pay current and future pension benefits, increased by $255,354 during the fiscal year to $1,633,741.

OSERS experienced total additions of $398,852 during this past fiscal year. The additions are represented by $61,411 from employer contributions, $37,182 from member contributions and purchases of service, $9,288 from the State of Nebraska (State) contributions, and $290,971 from net investment income.

Pursuant to Neb. Rev. Stat. § 79-9,113(1)(d) (Supp. 2021), the 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 fiscal year ended August 31, 2021, the District made an additional contribution of $24,145 to OSERS to meet the solvency requirement, and this amount is included in total employer contributions.

Total retirement benefits paid in fiscal year 2021 were $135,389. This represents monthly benefit payments to an average of 5,096 retirees each month. The District continued to experience a large number of 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 fiscal year ended August 31, 2021, OSERS paid out $7,157 in refunds 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 his or her 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 assets and liabilities, with the difference between the two reported as *Net Position Restricted for Pensions*. The level of net position reflects the resources available to pay benefits to members when due. Over time, increases and decreases in net position measure whether the financial position of OSERS is improving or deteriorating.

2. The *Statement of Changes in Fiduciary Net Position* presents the results of 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.

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

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 District and the State, and the money-weighted rates of return.

Financial Analysis

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

Fiduciary Net Position

	CYE 12/31/2021	FYE 8/31/2021	FYE 8/31/2020	Change in Fiscal Year	Percent Change in Fiscal Year
Total Assets	$ 1,729,370	$ 1,713,258	$ 1,498,998	$ 214,260	14.29%
Total Liabilities	93,448	79,517	120,611	(41,094)	(34.07)%
Net Position	$ 1,635,922	$ 1,633,741	$ 1,378,387	$ 255,354	18.53%

The change in total assets is due primarily to an increase of $279,299 in total investments. This increase was the result of very favorable market conditions during fiscal year 2021.

The change in total liabilities is due primarily to a decrease in other investments payable of $36,828.

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

Additions to Fiduciary Net Position

	CYE 12/31/2021	FYE 8/31/2021	FYE 8/31/2020	Change in Fiscal Year	Percent Change in Fiscal Year
Employer Contributions	$ 61,951	$ 61,411	$ 57,033	$ 4,378	7.68%
Member Contributions and Purchases of Service	37,457	37,182	35,475	1,707	4.81%
State Contributions	8,915	9,288	8,929	359	4.02%
Total Contributions and Purchases of Service	108,323	107,881	101,437	6,444	6.35%
Net Investment Income	243,693	290,971	118,829	172,142	144.87%
Other Income	270	-	34	(34)	(100.00)%
Total Investment Income and Other Income	243,963	290,971	118,863	172,108	144.80%
Total Additions	$ 352,286	$ 398,852	$ 220,300	$ 178,552	81.05%

The change in net investment income is due primarily to a $180,016 increase in net appreciation in fair value of investments. This increase was the result of very favorable market conditions during fiscal year 2021.

Deductions from Fiduciary Net Position

	CYE 12/31/2021	FYE 8/31/2021	FYE 8/31/2020	Change in Fiscal Year	Percent Change in Fiscal Year
Retirement Benefits	$ 137,263	$ 135,389	$ 129,988	$ 5,401	4.15%
Refunds to Members	6,407	7,157	6,497	660	10.16%
Administrative Expenses	963	952	890	62	6.97%
Total Deductions	$ 144,633	$ 143,498	$ 137,375	$ 6,123	4.46%

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

Legislative Changes
During 2021, the 107th Nebraska Legislature enacted LB 147, which instituted governance changes to the administration of OSERS. Effective July 1, 2021, management oversight was invested in the Omaha Public Schools (OPS) Board of Education, giving that body 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 OPS Superintendent, two business community members, two representatives of the OPS Board of Education, and two members of OSERS.

Additionally, LB 147 (2021) mandated the transition of the administration of OSERS to the Nebraska Public Employees Retirement Board, effective September 1, 2024. The OSERS Transition Board of Trustees and the OPS Board of Education are charged with ensuring the transition of administration by September 1, 2024.

LB 147 (2021) implemented other administrative changes, including but not limited to, a mandated compliance audit of OSERS in 2021 and a mandated use of the Nebraska Auditor of Public Accounts' office to perform the financial statement audit of OSERS effective in 2022.

Contacting OSERS Financial Management
This financial report is designed to provide OSERS' sponsor, the OSERS Transition 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. If you have any questions about this report or need additional financial information, you may contact OSERS by e-mail at osers@ops.org, by phone at 531-299-0329, or by mail at 3215 Cuming Street, Omaha, NE 68131-2024.

OMAHA SCHOOL EMPLOYEES' RETIREMENT SYSTEM

STATEMENT OF FIDUCIARY NET POSITION

December 31, 2021

(Thousands of Dollars)

ASSETS		
Cash and Cash Equivalents	$	10,696
Receivables		
Employer Contributions Receivable		2,611
Plan Member Contributions Receivable		2,586
Other Investments Receivable (Note 3)		31,214
Other Receivables		7,293
Total receivables		43,704
Investments, at fair value (Note 3)		
Asset Backed		16,461
Commingled Debt		204,132
Commingled Funds		615,252
Corporate Bonds		87,343
Equity Securities		285,073
Government Agency		1,208
International Bonds		10,262
Mortgages		66,043
Municipal Bonds		292
Options		(28)
Private Equity		180,395
Private Real Estate		96,321
Short Term		41,477
US Treasury Bills		10,409
US Treasury Notes and Bonds		34,704
Total investments		1,649,344
Invested Securities Lending Collateral (Note 3)		25,626
TOTAL ASSETS		1,729,370
LIABILITIES		
Refunds Payable and Accounts Payable		711
Accrued Payroll and Benefits Payable		11,801
Obligations Under Securities Lending (Note 3)		25,626
Other Investments Payable (Note 3)		55,310
TOTAL LIABILITIES		93,448
Fiduciary Net Position - Restricted for Pension Benefits	$	1,635,922

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, 2021

(Thousands of Dollars)

ADDITIONS	
Contributions	
Plan Member Contributions	$ 37,457
Employer Contributions	61,951
State Contributions	8,915
Total Contributions	108,323
Investment Income	
Interest and Dividents	15,927
Securities Lending Income	154
Net Appreciation in Fair Value of Investments	232,888
Total Investment Income	248,969
Investment Expense	(5,248)
Securities Lending Expense	(28)
Net Investment Income	243,693
Other Additions	270
Total Additions	352,286
DEDUCTIONS	
Retirement Benefits	137,263
Refunds to Employees, including Interest	6,407
Administrative Expenses	
Personnel Costs	508
Professional Fees	315
Other	140
Total Administrative Expenses	963
Total Deductions	144,633
Net Increase in Fiduciary Net Position	207,653
FIDUCIARY NET POSITION - RESTRICTED FOR PENSION BENEFITS:	
BEGINNING OF YEAR	1,428,269
END OF YEAR	$ 1,635,922

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, 2021, 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, is 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 Nebraska State Treasurer is the custodian of all funds; however, investment of funds is 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 the 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, 2022:

Inactive members or their beneficiaries currently receiving benefits	5,238
Inactive members entitled to, but not yet receiving, benefits	1,361
Inactive nonvested members entitled to a refund of member contributions	1,152
Active members	7,086
Total	14,837

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. 2020, Supp. 2021). Benefit and contribution provisions are established by State law and may be amended only by the Nebraska Legislature.

2. <u>OSERS Description and Contribution Information</u> (Continued)

In accordance with Nebraska revised statutes, OSERS is governed by the Board of Trustees, which is comprised of three members who are active employees of the District, one annuitant member, two business people approved by the District Board of Education, and the Superintendent of the District or his/her designee. OSERS is administered by its own Executive Director. The State of Nebraska has the authority under which OSERS provisions and obligations may be amended or established.

During 2021, the 107th Nebraska Legislature enacted Legislative Bill (LB) 147, which instituted governance changes to the administration of OSERS. Effective July 1, 2021, management oversight was invested in the Omaha Public Schools (OPS) Board of Education, giving that body 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 OPS Superintendent, two business community members, two representatives of the OPS Board of Education, and two members of OSERS.

Additionally, LB 147 (2021) mandated the transition of the administration of OSERS to the Nebraska Public Employees Retirement Board, effective September 1, 2024. The OSERS Transition Board of Trustees and the OPS 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. Neb. Rev. Stat. § 79-9,113(1)(d) (Supp. 2018) provides that contributions by the District, in any fiscal year beginning on or after September 1, 2018, shall be the greater of 101% of employee contributions (9.878% of member salaries) or the actuarially determined contribution rate to maintain the solvency of OSERS.

The actuarially determined contribution, as required by Neb. Rev. Stat. § 79-9,113 (1)(d) (Supp. 2018), resulted in an additional required contribution of $22,200. Total additional contributions made by the District during the calendar year ended December 31, 2021, amounted to $24,145 to meet solvency requirements.

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

D. Benefits Provided

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

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

2. OSERS Description and Contribution Information (Concluded)

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

Following 10 full years of retirement, a medical cost of living supplement is paid. This supplement equals $10 per month for each year retired and increases by $10 each year to a maximum of $250 per month. For retirees with less than 20 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 through 79-9,118 (Reissue 2014, Cum. Supp. 2020, Supp. 2021), known and cited as the Class V School Employees Retirement Act.

3. Cash and Investments

Deposits. At December 31, 2021, the carrying amounts of OSERS' deposits totaled $10,696, and the bank balances were $11,424. All bank balances were covered by Federal depository insurance or by collateral held by the District agent in the District's name. State statute requires the aggregate amount of collateral securities deposited by a bank to be at least 102% 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, 2021.

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. 2020) 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 . . . .*

Below are two different presentations of OSERS investments, by investment type, at December 31, 2021. 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.

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

3. Cash and Investments (Continued)

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

Investments as of December 31, 2021, at Fair Value Measurement Using:

	Fair Value	Level 1	Level 2	Level 3
Debt Securities				
Asset Backed Securities	$ 16,461	$ -	$ 16,461	$ -
Commingled Debt	204,132	196,086	8,046	-
Corporate Bonds	87,343	-	87,343	-
Government Agency	1,208	-	1,208	-
International Bonds	10,262	-	10,262	-
Mortgages	66,043	-	66,043	-
Municipal Bonds	292	-	292	-
Short Term	41,477	9,415	32,062	-
US Treasury Bills	10,409	-	10,409	-
US Treasury Notes and Bonds	34,704	-	34,704	-
	472,331	205,501	266,830	-
Other Investments				
Commingled Funds	615,252	233,039	382,213	-
Equity Securities	285,073	285,073	-	-
Options	(28)	-	(28)	-
Total Investments	$ 1,372,628	$ 723,613	$ 649,015	$ -
Investments Measured at the Net Asset Value (NAV)		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private Real Estate Funds	$ 96,321	$ 17,906	Quarterly	90Days
Private Equity Funds	180,395	30,384	Quarterly	90 Days
Total Investments Measured at Net Asset Value	$ 276,716	$ 48,290		
Total	$ 1,649,344			
Securities Lending Collateral	$ 25,626			
Total Investments at Fair Value	$ 1,674,970			

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:

(Thousands of Dollars)

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

- U.S. Treasury Notes and Bonds, Government Agency Securities, and Short Term Investments: quoted prices for identical securities in markets that are not active;

- Corporate, International, Municipal Bonds, and Equity Securities: quoted prices for similar securities in active markets;

- Asset Backed Securities, Bank Loans, and Mortgages: matrix pricing, based on accepted modeling and pricing conventions, of the securities' relationship to benchmark quoted prices; and

- Commingled Funds: published fair value per share (unit) for each fund.

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

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

OSERS Investments at December 31, 2021

	Fair Value	Effective Duration
Debt Securities		
Asset Backed Securities	$ 16,461	1.40
Commingled Debt	204,132	6.34
Corporate Bonds	87,343	6.35
Government Agency	1,208	6.34
International Bonds	10,262	7.70
Mortgages	66,043	3.80
Municipal Bonds	292	23.22
Short Term	41,477	0.06
US Treasury Bills	10,409	0.20
US Treasury Notes and Bonds	34,704	11.97

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

3. Cash and Investments (Continued)

	Fair Value	Effective Duration
Other Investments		
Commingled Funds	615,252	
Equity Securities	285,073	
Options	(28)	
Private Real Estate Funds	96,321	
Private Equity Funds	180,395	
Total Investments	1,649,344	
Securities Lending Collateral	25,626	
Total Investments at Fair Value	$ 1,674,970	

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

OSERS investments at December 31, 2021, 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, 2021, 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.

	Asset Backed Securities	Corporate Bonds	Government Agency	International Bonds	Mortgages	Commingled Debt	Short Term	Municipal Bonds
AAA	$ 11,458	$ 1,453	$ -	$ -	$ 11,031	$ -	$ -	$ -
AA	553	695	714	2,440	1,956	-	-	271
A	1,439	21,272	348	1,420	886	-	-	12
BBB	416	51,970	68	3,310	481	-	-	9
BB	145	8,607	-	1,791	-	-	-	-
B	88	2,342	-	886	-	-	-	-
CCC	385	385	-	172	44	-	-	-
CC	632	-	-	155	77	-	-	-
C	-	-	-	6	41	-	-	-
D	598	-	-	4	21	-	-	-
NR	747	619	78	78	51,506	204,132	41,477	-
	$ 16,461	$ 87,343	$ 1,208	$ 10,262	$ 66,043	$ 204,132	$ 41,477	$ 292

(Thousands of Dollars)

3. Cash and Investments (Continued)

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, 2021, 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 20 to 23 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.

	Asset Backed	Corporate Bonds	Equity Securities	International Bonds	Mortgages	Private Equity	Short Term
Australian Dollar	$ -	$ -	$ 155	$ -	$ -	$ -	$ 1
Brazilian Real	-	-	2,390	-	-	-	(42)
Canadian Dollar	-	-	1,649	-	-	10,144	3,832
Danish Krone	-	215	1,793	-	-	-	1
Euro Currency	1,462	4,101	37,081	902	-	6,105	1,779
Hong Kong Dollar	-	-	1,851	-	-	-	-
Hungarian Forint	-	-	201	-	-	-	-
Indonesian Rupiah	-	-	99	-	-	-	9
Japanese Yen	-	-	18,791	-	-	-	80
Malaysian Ringgit	-	-	20	-	-	-	-
Mexican Peso	-	-	425	-	-	-	-
New Israeli Sheqel	-	-	372	-	-	-	-
New Zealand Dollar	-	-	-	-	-	-	1

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

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

	Asset Backed	Corporate Bonds	Equity Securities	International Bonds	Mortgages	Private Equity	Short Term
Norwegian Krone	$ -	$ -	$ 671	$ -	$ -	$ -	$ -
Philippine Peso	-	-	192	-	-	-	-
Polish Zloty	-	-	45	-	-	-	-
Pound Sterling	-	278	16,623	-	2,098	12,898	4,043
Russian Ruble	-	-	278	-	-	-	-
Peruvian Nuevo Sol	-	-	-	496	-	-	-
South African Rand	-	-	273	-	-	-	-
South Korean Won	-	-	1,466	-	-	-	-
Swedish Krona	-	-	2,779	-	-	-	-
Swiss Franc	-	-	14,060	-	-	-	-
Thailand Baht	-	-	278	-	-	-	-
Turkish Lira	-	-	1,474	-	-	-	8
Yuan Renminbi	-	-	1,241	-	-	-	131
Yuan Renminbi Offshore	-	-	-	-	-	-	(131)
Total	$ 1,462	$ 4,594	$ 104,207	$ 1,398	$ 2,098	$ 29,147	$ 9,712

Derivative Financial Instruments. Derivative instruments are financial contracts whose underlying values depend on the values of one or more underlying assets, reference rates, or financial indices. These instruments are used primarily to enhance performance and reduce the volatility of the portfolio, in accordance with the Nebraska Investment Council-approved Derivatives Policy. OSERS invests in futures contracts, options, and swaps. Futures represent commitments to purchase or sell securities or money market instruments at a future date and at a specific price. Options represent the right, but not the obligation, to purchase or sell securities at a future date and at a specific price. OSERS invests in these contracts related to securities of the U.S. government or Government Agency obligations based on reference notes, which 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, 2021, are reflected in Investments. The fair value balances and notional amounts of derivative instruments outstanding at December 31, 2021, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows:

Derivative Instrument	Change in Fair Value	Fair Value	Notional
Credit Default Swaps Written	$ (13)	$ 409	$ 5,520
Fixed Income Futures	38	-	720,513
Fixed Income Options Written	29	(28)	(15,510)
Futures Options Written	14	-	-
FX Forwards	645	(122)	17,512
Pay Fixed Interest Rate Swaps	243	(2)	24,757
Receive Fixed Interest Rate Swaps	(86)	(53)	28,751
Rights	-	-	-
Warrants	13	75	6

(Thousands of Dollars)

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

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, 2021, 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, the Nebraska Investment Council's policy is 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, 2021, was $279. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted. There is no collateral held or liabilities included in netting arrangements with those counterparties; therefore, the net exposure to credit risk is $279.

Although the Plans execute derivative instruments with various counterparties, there is approximately 99 percent of the net exposure to credit risk, held with four counterparties. The counterparties are rated BBB+ 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' interest rate swaps were fixed with a LIBOR (London Interbank Offered Rate) or SIFMA (Securities Industry and Financial Market Association) reference rate.

Foreign currency risk for derivative instruments at December 31, 2021, are as follows:

Currency	Options	Swaps	Forward Contracts
Australian Dollar	$ -	$ -	$ (37)
Brazilian Real	-	(50)	-
Chilean Peso	-	-	(27)
Danish Krone	-	-	4
Euro Currency	-	393	18
Pound Sterling	-	37	(59)
Japanese Yen	-	(43)	(17)
Norwegian Krone	-	-	(7)
Peruvian Nuevo Sol	-	-	3

(Thousands of Dollars)

3. Cash and Investments (Concluded)

Other Investment Receivables/Other Investment Payables. Other investment receivables consisted 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, 2021, 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 17.71% for the year ended December 31, 2021. 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, 2021, are as follows:

Total pension liability	$ 2,433,846
Fiduciary net position	1,633,741
Net pension liability	$ 800,105
Ratio of fiduciary net position to total pension liability	67.13%

Actuarial assumptions: The total pension liability was determined based on an actuarial valuation as of January 1, 2021, rolled forward to August 31, 2021, using standard actuarial formulae and the following actuarial assumptions, applied to all periods included in the measurement:

(Thousands of Dollars)

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

Price inflation	2.75%
Wage inflation	3.25%
Salary increases, including price inflation	3.75 – 6.25%
Long-term rate of return, net of investment expense, including price inflation	7.50%
Municipal bond index rate:	
Prior measurement date	2.11%
Measurement date	2.12%
Year fiduciary net position is expected to be depleted	N/A
Single equivalent interest rate, net of Investment expense, including price inflation:	
Prior measurement date	7.50%
Measurement date	7.50%
Cost-of-living adjustments	1.50% if hired before July 1, 2013
	1.00% if hired on or after July 1, 2013
	Medical COLA of $10 per month for each year retired (max $250/month), if hired before July 1, 2016
Mortality	Pre-retirement mortality rates were based on the RP-2014 Mortality Table, female rates set back 1 year and male rates set forward 1 year, projected on a generational basis using Scale MP-2016.
	Post-retirement mortality rates were based on the same rates as the pre-retirement tables.
	Post-disability mortality rates were based on the RP-2014 Disabled Retiree Mortality Table, without generational improvement.

The actuarial assumptions used in the valuation were based on the results of the most recent actuarial experience study, which covered the five-year period ending August 31, 2016. The experience study report is dated April 5, 2017.

4. Net Pension Liability (Continued)

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, 2021, was 7.50%. There was no change from the prior measurement date.

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

a) Employee contribution rate: 9.78% of compensation.

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

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

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

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 7.50% 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 April 5, 2017. 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 2.12% on the measurement date.

Periods of projected benefit payments: Projected future benefit payments for all current members were projected through 2120.

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*
Large cap equity	26.1%	6.3%
Small cap equity	2.9%	6.8%
Global equity	15.0%	7.2%
International developed equity	10.8%	7.2%
Emerging markets	2.7%	7.5%
Core bonds	20.0%	2.9%
High yield investments	3.5%	5.4%
Bank loans	5.0%	4.4%
International bonds	1.5%	2.2%
Real estate	7.5%	5.7%
Private equity	5.0%	8.5%
Total	100%	

*Arithmetic mean, net of investment expenses

Sensitivity analysis: The following presents the net pension liability of OSERS, calculated using the discount rate of 7.5%, as well as OSERS' net pension liability, calculated using a discount rate that is one percentage-point lower (6.5%) or one percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net pension liability	$ 1,109,201	$ 800,105	$ 543,410

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 Events

Based on the Experience Study report for the four-year period ended December 31, 2020, issued on December 6, 2021, the following changes in actuarial assumptions were made for the January 1, 2022, valuation:

- The investment return assumption was lowered from 7.5% to 7.4%.
- The inflation assumption was lowered from 2.75% to 2.7%.
- 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 3.2%.
- The mortality assumption was changed to the Pub-2010 General Members (Median) Employee Mortality Table projected generationally using the NPERS projection scale.
- Termination rates were modified for both certificated and classified employees.
- Retirement rates were modified for both certificated and classified employees.
- The salary scale increase rates were modified for both certificated and classified employees.
- The pre-retirement survivor annuity assumption that members are married was changed from 100% to 85%.
- The probability of electing a refund assumption was changed for both certificated and classified employees.
- An administrative expense assumption of 0.24% of payroll was added.
- The unfunded actuarial accrued liability (UAAL) amortization period for future actuarial experiences will be changed from a 30-year closed period to a 25-year closed period.

The Annual Actuarial Report as of January 1, 2022, projected an additional required District contribution of $21,802 for the District fiscal year ended August 31, 2022.

OMAHA SCHOOL EMPLOYEES' RETIREMENT SYSTEM

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY

Last 10 Fiscal Years Ending August 31

(Thousands of Dollars)

	2021	2020	2019	2018	2017	2016	2015	2014
TOTAL PENSION LIABILITY:								
Service cost at end of year	$ 46,029	$ 43,490	$ 42,354	$ 37,704	$ 37,821	$ 39,451	$ 38,242	$ 36,090
Interest on total pension liability	168,343	163,027	159,150	152,896	144,648	138,933	133,768	128,868
Difference between expected and actual experience	45,177	2,015	(17,656)	19,474	26,757	7,104	(501)	-
Changes of assumptions	-	-	-	-	141,348	-	-	-
Other*	2,290	1,808	1,991	1,832	2,088	1,946	2,919	-
Benefit payments, including member refunds	(142,546)	(136,485)	(131,896)	(125,272)	(118,997)	(113,106)	(106,735)	(100,810)
Net change in total pension liability	119,293	73,855	53,943	86,634	233,665	74,328	67,693	64,148
TOTAL PENSION LIABILITY - beginning of year	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	$ 2,433,846	$ 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	$ 61,411	$ 57,033	$ 57,267	$ 55,564	$ 47,981	$ 33,903	$ 33,109	$ 31,913
Contributions - state	7,290	7,302	7,420	7,111	6,897	6,661	6,453	7,888
Contributions -member	36,891	35,295	35,614	36,327	34,883	33,764	32,584	31,597
Net investment income	290,971	118,829	32,447	85,795	73,217	15,375	(51,214)	154,207
Benefit payments, including member refunds	(142,546)	(136,485)	(131,896)	(125,272)	(118,997)	(113,106)	(106,735)	(100,810)
Administrative expense	(952)	(890)	(1,087)	(867)	(1,384)	(1,290)	(814)	(1,123)
Other*	2,289	1,841	2,012	1,844	2,090	2,082	3,002	703
Net change in plan fiduciary net position	255,354	82,925	1,777	60,502	44,687	(22,611)	(83,615)	124,375
PLAN FIDUCIARY NET POSITION - beginning of year	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	$ 1,633,741	$ 1,378,387	$ 1,295,462	$ 1,293,685	$ 1,233,183	$ 1,188,496	$ 1,211,107	$ 1,294,722
NET PENSION LIABILITY	$ 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	67.13%	59.55%	57.82%	59.16%	58.72%	63.68%	67.58%	75.08%
Covered payroll	$ 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	212.11%	259.40%	259.57%	240.43%	243.06%	196.38%	174.39%	133.01%

*Effective 2015, other amounts include transfer of assets of State service annuity liabilities transferred to OSERS and purchases of service.
For 2021, these amounts were $1,998 and $291, respectively.

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

Note: LB 147, Laws 2021 changed the reporting period for OSERS from a fiscal year end of August 31, to a calendar year end of December 31. However, generally accepted accounting principles require the information on the Schedule of Employer Contributions to be reported on the entity's fiscal year end, which is still August 31, per Neb. Rev. Stat. § 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)

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Actuarially-determined contribution	$ 66,756	$ 62,803	$ 61,631	$ 62,637	$ 57,674	$ 37,906	$ 34,614	$ 34,225	$ 35,032	$ 32,958
Employer statutory	37,266	35,676	35,967	36,664	35,231	33,903	33,109	31,913	29,581	28,861
Employer additional	24,145	21,357	21,300	18,900	12,750	-	-	-	-	4,330
Non-employer (State)*	7,290	7,302	7,420	7,111	6,897	6,661	6,453	6,285	4,042	3,918
Total Contributions	$ 68,701	$ 64,335	$ 64,687	$ 62,675	$ 54,878	$ 40,564	$ 39,562	$ 38,198	$ 33,623	$ 37,109
Annual contribution deficiency (excess)	$ (1,945)	$ (1,532)	$ (3,056)	$ (38)	$ 2,796	$ (2,658)	$ (4,948)	$ (3,973)	$ 1,409	$ (4,151)
Covered payroll	$ 377,207	$ 360,891	$ 364,154	$ 371,440	$ 356,676	$ 345,231	$ 333,166	$ 323,078	$ 313,946	$ 307,258
Actual contributions as a percentage of covered payroll	18.21%	17.83%	17.76%	16.87%	15.39%	11.75%	11.87%	11.82%	10.71%	12.08%

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 a calendar year end of December 31. However, generally accepted accounting principles require the information on the Schedule of Employer Contributions to be reported on the entity's fiscal year end, which is still August 31, per Neb. Rev. Stat. § 79-978(19).

*Excludes transfer of monies from the Nebraska Public Employees' Retirement Systems 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

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

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

*OSERS revised its money-weighted rate of return calculation. Therefore, this schedule will not agree to its audit reports at 8/31 or to the GASB 67 reports.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

For the Last 10 Fiscal Years Ending August 31 (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, 2021 (based on the January 1, 2021, 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. All subsequent bases are amortized over a 30-year period beginning on the valuation date.
Asset Valuation method	Market related smoothed value.
Price inflation	2.75%
Salary increases, including price inflation	3.75 – 6.25%
Long-tern rate to return, net of Investment expense, including price inflation	7.50%
Cost-of-living adjustments	1.50% if hired before July 1, 2013. 1.00% if hired on or after July 1, 2013. Medical COLA of $10 per month for each year retired (max $250/month) if hired before July 1, 2016.

January 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.

January 1, 2019, valuation:

- The amortization of the 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.

January 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 for 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.

September 1, 2013, valuation:

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

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):

2018: In 2017, the Nebraska Legislature enacted Legislative Bill (LB) 415, which changed the retirement provisions for the 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 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.

In 2018, the Nebraska Legislature enacted LB 1005, which requires the School District to contribute an amount equal to or greater that the actuarially required contribution rate provided in the most recent valuation report.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
(Concluded)

2017: In 2016, the Nebraska Legislature enacted LB 447, which changed the retirement provisions for members hired on or after July 1, 2016, to match the School 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 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: In 2013, the Nebraska Legislature enacted LB 553, which increased the member's contribution rate from 9.3% of pay to 9.78% of pay. The District's contribution rate is equal to 101% of the employee contribution rate; therefore, the District's contribution rate increased from 9.393% of pay to 9.878% of pay. The State contribution rate also increased permanently from 1% (plus $973,301) to 2% of payroll, effective July 2014. LB 553 (2013) 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.

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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, 2021, and the related notes to the financial statements, which collectively comprise the OSERS' basic financial statements, and have issued our report thereon dated June 21, 2022. 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.

Our consideration of internal control was for the limited purpose described in the preceding 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 described in the accompanying management letter, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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. We consider Comment Number 1 ("Financial Statement Misstatements") found in the letter issued to management dated June 21, 2022, to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider Comment Number 2 ("Calculations for Purchases of Service Credit") found in the letter issued to management dated June 21, 2022, to be a significant deficiency.

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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Additional Items
We also noted certain additional items that we reported to management of OSERS in a separate letter dated June 21, 2022.

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

June 21, 2022

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

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June 21, 2022

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

Dear Board Members:

In planning and performing our audit of 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, 2021, 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, we have issued our report thereon dated June 21, 2022. 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.

In connection with our audit 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 a certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

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 consider Comment Number 1 (Financial Statement Misstatements) to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider Comment Number 2 (Calculations for Purchases of Service Credit) to be a significant deficiency.

Draft copies of this letter were furnished to OSERS and the District to provide management with an opportunity to review and to respond to the comments and recommendations contained herein. Any formal responses received have been incorporated into this letter. Such responses were not subjected to the auditing procedures applied in the engagement to audit the financial statements; 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, 2021.

1. Financial Statement Misstatements

The Auditor of Public Accounts (APA) identified several financial statement errors that are included below:

Inaccurate Accrual Entries

The APA found certain errors in the OSERS year-end accrual entries, some of which were material. The errors included in the table below were all corrected by OSERS:

Entry #	Account	Account Description	Debit	Credit
#1	41425	Investment Income	$ 1,111,452	$ -
	53192	Investment Expenses	$ 85,135	$ -
	63999	Unrealized Gains/Loss	$ -	$ 1,196,587
This entry is to correct the investment activity amounts recorded by OSERS. The allocation of the investment activity of the commingled funds was not accurate.				
#2	16900	Securities Lending Collateral	$ 25,625,829	$ -
	20300	Obligations Securities Lending	$ -	$ 25,625,829
This entry is to record the securities lending collateral and the obligations under securities lending from the commingled funds. OSERS failed to report these amounts.				
#3	56250	Securities Lending Expense	$ 28,473	$ -
	41425	Investment Income	$ 126,102	$ -
	41427	Securities Lending Interest	$ -	$ 154,575
This entry is to record the securities income and expense activity from the commingled funds.				
#4	13295	Private Equity (K9F8)	$ 2,536,404	$ -
	16270	Miscellaneous Accts Receivable	$ 2,463,040	$ -
	14360	Local-Interest Rcv-TB	$ 1,755,110	$ -
	20080	Accounts Payable Liabilities	$ -	$ 6,754,554
	14360	Local-Interest Rcv-TB	$ -	$ 1,323,482
	63999	UnrealizeGain/Loss-Perm Invest	$ 1,323,482	$ -
This entry is to properly record the interest and dividends receivable, the other investment receivable, and the investments payable. OSERS' method to allocate the activity was not accurate for the commingled fund.				
#5	53192	Investment Expenses	$ 2,729,976	$ -
	63999	Unrealized Gains/Losses	$ -	$ 2,729,976
This entry is to adjust the investment manager fees expenses for additional fees reported by the Nebraska Investment Council.				
#6	53192	Investment Expenses	$ 800,655	$ -
	20080	Inv Fees Payable	$ -	$ 800,655
This entry is to record the investment manager fees payable at 12/31/2021.				

Many of the errors noted above were related to the method OSERS used to allocate investment activity of the commingled funds. OSERS used an average percentage for the commingled funds, and the custodial bank allocated the activity by the ownership of each individual fund. Other entries included above had not been made in the prior audits, and OSERS was not aware that they needed to be made.

Refunds Payable and Coding of Refunds

The APA also noted certain errors with the calculation of refunds payable or recording of refunds during our testing, as follows:

- Three refund payable amounts, totaling $55,663, were not actually payable on December 31, 2021. The members submitted refund applications on or after December 20, 2021. OSERS' Rules and Regulations does not allow payment of a refund for 20 days after the application is received.

- Another refund payable of $27,113 was not payable on December 31, 2021. The member terminated on September 6, 2021. OSERS' Rules and Regulation does not allow a payment before four calendar months from the member's termination date.

- During testing of 4 of 10 refund payments, the amount recorded in the OSERS' accounting system was not accurate. In November 2021, the original entries were cancelled in the accounting system and then reprocessed. As a result, only the net amount paid was recorded, not the gross amount paid. The following table shows the four refunds in question:

Gross Refund	Recorded Expenditure	Understatement of Expenditures
$ 9,016	$ 6,762	$ 2,254
$ 15,040	$ 11,280	$ 3,760
$ 12,537	$ 9,403	$ 3,134
$ 24,143	$ 19,313	$ 4,830

OSERS' Rules and Regulations, Section 4-003.04, "Timing of Distribution," states the following:

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

Good internal controls require procedures to ensure the financial statements are materially correct. Without such procedures, there is an increased risk for misstated financial statements. We consider this finding to be a material weakness.

We recommend OSERS strengthen procedures to ensure financial statements are materially correct.

Management Response: Processes for allocating and recording investment activity provided by the Nebraska Investment Council will be reviewed and updated based on the processes used by the Nebraska Public Employees Retirement System as provided by the Nebraska Auditor of Public Accounts. Management will also review securities lending activities with the Nebraska Investment Council and develop procedures to properly report these activities in the future. Future refund payable amounts known as of December 31, 2021 were presented in anticipation of subsequent Board of Trustee and Board of Education approval. Refunds payable amounts within the waiting period in OSERS' Rules and Regulations will not be presented in the future. Procedures will be reviewed and updated to ensure that any refunds cancelled and subsequently reprocessed are accurately recorded in PeopleSoft for the appropriate amount.

2. Calculations for Purchases of Service Credit

The APA tested the calculations for four purchases of service credit by two members and noted the following issues:

Issue	Description
Required District Match not Made	The District is required to match the amount paid by the member for purchases of prior service credit in other districts. However, the District failed to make the required matching contributions since July 2013. There were 35 purchases of prior service credit in other districts during this time. The amount of the required match owed by the District is $845,318.

Issue	Description
Documentation of Prior Refund not Maintained	One purchase of service type is the repayment of a prior refund. In this calculation, the amount of the original refund is used; however, OSERS failed to maintain documentation of the original refunds, so the APA could not verify the calculation amounts. OSERS calculated a repayment of $46,112 for one member and $39,166 for the other member.
Benefit Forfeiture and Grant of Service Credit	For the purchase of prior service credit from other districts, OSERS is required to verify that the benefit in the other district was forfeited prior to granting the purchase of service. For one purchase tested, OSERS did not maintain documentation that the benefit in another district was forfeited. The member purchased 10 years of service for $72,270. Additionally, OSERS granted 10 years of service for this purchase when that amount exceeded the member's District service of six years.
Approved Interest Rates not Maintained	The calculation of the repayment of a refund and the purchase of prior service credit are based on the Board-approved interest rates. OSERS lacked documentation to support the Board-approved interest rates prior to fiscal year 2015; therefore, the APA could not verify the calculated amounts.
Incorrect Calculation for All-Purpose Buy In	For the purchase of an all-purpose buy in, the cost should be the increased actuarial cost to the plan for granting the additional service credit. OSERS used a spreadsheet that included hidden actuarial factors to calculate this amount. One member tested purchased five years of service for $6,751. However, using the spreadsheet provided by the actuary, the APA calculated the cost to be $26,915. Therefore, the amount paid by the member for the five years of service was not correct.

The required district match for the purchase of prior service credit is specified in Neb. Rev. Stat. § 79-991(1)(d) (Supp. 2021), as follows:

> *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.*

Neb. Rev. Stat. § 79-992(1) (Supp. 2021) provides, in relevant part, the following regarding benefit forfeiture and refund repurchase issues:

> *Any member receiving a refund of contributions shall thereby forfeit and relinquish all accrued rights in the retirement system including all accumulated creditable service, except that if any member who has withdrawn his or her contributions as provided in this section reenters the service of the district and again becomes a member of the retirement system, he or she may restore any or all money previously received by him or her as a refund, including the interest on the amount of the restored refund for the period of his or her absence from the district's service as determined using the interest rate for interest on such restored refunds, and he or she shall then again receive credit for that portion of service which the restored money represents.*

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

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

(c) . . .]f the prior service to be purchased by the member exceeds the member's membership service at the time of application or any subsequent date, such excess prior service shall be credited to the member only as the member completes and is credited additional membership service, in one-tenth-year increments . . . .

Good internal controls require procedures to ensure the following: 1) purchases of prior service credit are matched by the District, as statutorily required; 2) documentation of prior refunds and benefit forfeitures is maintained; 3) the amount of purchased service credit granted complies with that specified in statute; and 4) interest rates and actuarial factors are maintained for the purchase of an all-purpose buy in.

Without such procedures, there is an increased risk that the cost of the purchase of service credit will not cover the future benefits related to the purchase. We consider this finding to be a significant deficiency.

> We recommend the District remit the required match of $845,318 to OSERS. We also recommend OSERS implement procedures to ensure purchases of service credit comply with all statutory requirements related thereto, proper documentation for the purchases is maintained, and interest rates and actuarial rates are documented prior to granting credit for such purchases. We also recommend OSERS determine whether any adjustments to purchased service credit are necessary.

Management Response: The District will remit the full amount of the required matching contributions. OSERS and the District have developed procedures to ensure that all future required matching contributions are communicated by OSERS to the District and made in a timely manner.

Documentation of historical events may only be available as posted into the mainframe and carried over to PeopleSoft in 2003. Current documentation of transactions (i.e., refunds) are maintained in paper files and electronic files on the District's server. The transactions in question from this audit are from the 1993 and 2002 fiscal year.

OSERS will review NPERS procedure and implement a similar verification process from prior employer/pension that the member has forfeited their right to a future pension from their former employer/pension plan.

Since 2016, OSERS has a procedure in place which maintains a record of the interest rates set annually by the Board. This procedure will be maintained through the transition to NPERS and passed onto NPERS for historical records.

OSERS is working with the actuary to review all calculators used in the processing of purchases of service in order to have a documented audit before the transition to NPERS and will then maintain documentation of any future changes through the date of transition.

3. Benefit Calculation Issues

The APA noted several issues during our testing of the calculation of 10 new retirees' benefit amounts. The table below shows the calculations for 8 of these 10 members:

Final Average Monthly Compensation	Service Years	Formula Annuity				Service Annuity				Total Annuity
		Factor Set By Law	Reduction Factor	Option Annuity Factor	Formula Annuity	State Service Annuity	St. Service Annuity Reduction	Option Annuity Factor	Service Annuity	
$ 1,912.53	27.5	2%	100%	0.9014	$ 948.17	$ 3.50	0.66628	0.9014	$ 57.81	$ 1,005.98
$ 2,467.57	11.6	2%	100%	0.8578	$ 491.07	$ 3.50	100%	0.8578	$ 34.83	$ 525.90
$ 4,361.40	9	2%	100%	0.8374	$ 657.40	$ 3.50	100%	0.8374	$ 26.38	$ 683.78
$ 5,394.70	21	2%	94.25%	1.0000	$ 2,135.49	$ 3.50	0.60442	1.0000	$ 44.42	$ 2,179.92
$ 5,943.32	32	2%	100%	1.0000	$ 3,803.72	$ 3.50	0.60442	1.0000	$ 67.70	$ 3,871.42
$ 8,299.04	29	2%	100%	0.9573	$ 4,607.91	$ 3.50	0.90108	0.9573	$ 87.55	$ 4,695.46
$ 1,950.74	30.6	2%	100%	0.8632	$ 1,030.53	$ 3.50	100%	0.8632	$ 92.45	$ 1,122.98
$ 8,331.45	20	2%	79%	1.0000	$ 2,632.74	$ 3.50	0.37866	1.0000	$ 26.51	$ 2,659.24

Actuarially-Determined Reduction Factors

OSERS used actuarially-determined reduction factors in members' formula and service annuity calculations. OSERS staff entered the factors into the accounting system, which is used to calculate benefit amounts. However, OSERS failed to maintain documentation to show that the factors came from an actuary and complied with State statute.

The option annuity factor (formula annuity) is a reduction to the monthly benefit that results in an equality in value of the retirement allowance for early retirement or for an optional form of annuity, or both, with the normal form of the annuity to be paid. The normal form is an annuity payable during the remainder of the member's life or until 60 monthly payments have been made. In the table above, the option annuity factors are highlighted in yellow.

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

> *Any time prior to receiving the first annuity payment, the member may elect to receive in lieu of such annuity, but payable in the same manner, an actuarially equivalent annuity in one of the following forms:*
>
> *(1) A joint and survivorship annuity which shall continue after the death of the member to the death of the (a) member's spouse or (b) other designated beneficiary whose adjusted age in the calendar year in which the payment of the annuity commences is no more than ten years less than the attained age of the member in such calendar year;*
>
> *(2) A joint and survivorship annuity which shall continue after the death of the member so that seventy-five percent of the amount of the member's monthly benefit under this option shall be paid monthly to the (a) member's spouse until his or her death or (b) other designated beneficiary whose adjusted age in the calendar year in which the payment of the annuity commences is no more than nineteen years less than the attained age of the member in such calendar year until his or her death;*
>
> *(3) An annuity payable monthly during the remainder of the member's life with the provision that in the event of his or her death before one hundred twenty monthly payments have been made the monthly payments will be continued as provided in this section until a total of one hundred twenty monthly payments have been made;*
>
> *(4) A joint and survivorship annuity which will continue after the death of the member to the death of the (a) member's spouse or (b) other designated beneficiary whose adjusted age in the calendar year in which the payment of the annuity commences is no more than ten years less than the attained age of the member in such calendar year but which annuity shall, upon the spouse's or designated beneficiary's death before the death of the member, be increased after such death for the remaining life of the member so that the monthly benefit equals the monthly benefit which would have been payable to the member had the member selected the normal form of the formula retirement annuity specified in section 79-9,100; or*
>
> *(5) A joint and survivorship annuity which shall continue after the death of the member so that fifty percent of the amount of the member's monthly benefit under this option shall be paid monthly to a designated beneficiary until his or her death.*
>
> *For purposes of the annuities provided in subdivisions (1), (2), and (4) of this section, a designated beneficiary's adjusted age means the attained age of the designated beneficiary in the calendar year in which payment of the annuity commences plus the number of years, if any, by which the member's attained age in the calendar year in which payment of the annuity commences is younger than seventy years.*
>
> *Each of these actuarially equivalent annuities, except for the form provided in subdivision (3) of this section, shall continue for a minimum of sixty months.*
>
> *The amount of each monthly payment shall be the amount specified in the form elected by the member.*

Neb. Rev. Stat. § 79-978(2) (Supp. 2021) 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[.]*

Section (3) of that statue defines "actuarial tables" as follows:

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[.]

Because OSERS failed to maintain documentation to show the formula annuity reduction factors complied with the above statutory provisions, the APA asked the current actuary to provide some assurance that the factors used by OSERS were reasonable. The actuary was able to determine that, for the members included in the table above, the factors were reasonable related to the statutory requirements.

The service annuity reduction is for employees who retire prior to their 65th birthday. Those reduction factors are highlighted in blue in the table above. The service annuity is paid in accordance with Neb. Rev. Stat. § 79-9,100(8) (Cum. Supp. 2020), which says the following:

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

(Emphasis added.) Neb. Rev. Stat. § 79-933(2) (Reissue 2014) addresses the service annuity reduction, as follows:

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) 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 (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, <u>if the service annuity commences prior to the member's sixty-fifth birthday, it shall be on an actuarially reduced basis.</u> 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.)

Calculation Issues

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

- One member tested was due a State service annuity; however, the annuity was deferred by OSERS until the member's 60th birthday. OSERS failed to provide statutory support for the deferral. The member received the first payment in December 2021 and should have received the $26.51 per month for the State service annuity. See member benefit highlighted in green above. According to OSERS, there are 100 members who have their State service annuity deferred due to their age. See § 79-9,100(8) included above.

- One member's service credit was not adequately supported. In 1993, the member worked 139 days out of the 187-day contract. There is no provision in the labor contract to grant any service credit for that work. In fact, the District's policy required an employee to work 155 days to earn service credit at that time. OSERS awarded half a year of service for the formula annuity and one year of service for the service annuity. The APA's calculation used 27.5 service years. It appears the member's benefit was $19 per month more than it should have been. See the service years highlighted in gray in the table above.

- OSERS failed to cap properly two of the service members' salaries in accordance with § 79-9,100(4)(b), which requires an 8% cap to be applied to the five plan years preceding the members' effective retirement date. For one of the two members, the effective retirement date was May 2021, but she had stopped working in July 2012. Consequently, there appears to have been no need for a capping calculation. For the other member tested, OSERS failed to reduce the last year of earnings to 8%. The member's earnings had increased by 8.11%, but the salary was not reduced. Both errors resulted in minimal differences in the monthly benefit ($1.54 and $.73 per month). This error is highlighted in pink in the table above.

The Board of Education of the District has adopted various policies. Section 4034 contains language related to the length of years of experience, as follows:

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

Neb. Rev. Stat. § 79-9,100(4) (Cum. Supp. 2020) defines the salary-capping period as follows:

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

Lack of Documentation

The APA also noted the following issues in our testing of the benefit payments to members:

- OSERS lacked procedures to ensure that all retirement applications received were date stamped. The date the application is received is needed to determine the member's proper retirement date.

- For 9 of the 10 new member benefits tested, OSERS failed to obtain adequate documentation to ensure the accuracy of both the age of the member and the designated joint annuitant. For each individual, OSERS obtained a copy of the member's driver's license to support the date of birth; however, this is not valid documentation per OSERS Rules and Regulations.

- For 4 of 25 benefit payments tested, OSERS failed to provide adequate documentation verifying the members' direct deposit information for the bank in which the benefit was deposited. No signed form was on file for these members.

The Rules and Regulations of the District Board of Education on the Operating and Management of OSERS (Rules and Regulations) were adopted on July 12, 2021. Chapter 17 – Benefit Options and Distribution Rules, Section 002.05, 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.*

The OSERS Rules and Regulations also contain a provision that defines the proper proof of age. Chapter 5, Section 002, "Proof of Age," states the following:

> *002.01 Preferred Evidence of Age:*
>
> > *002.01(a) A birth certificate recorded before age 5;*
> > *002.01(b) A religious record of birth or baptism recorded before age 5;*
> > *002.01(c) Notification of registration of birth made before age 5; or*
> > *002.01(d) A delayed birth certificate.*
>
> *002.02 Other evidence of age: if an individual cannot obtain preferred evidence of age, he or she may submit other convincing evidence of age. The other evidence may be one or more of the following records:*
>
> > *002.02(a) Hospital birth record or certificate.*
> > *002.02(b) Physician's or midwife's birth records.*
> > *002.02(c) Bible or other family record.*
> > *002.02(d) Naturalization record.*
> > *002.02(e) Military record.*
> > *002.02(f) Immigration record.*
> > *002.02(g) Passport.*
> > *002.02(h) Selective service registration record.*
> > *002.02(i) Employer's record.*
> > *002.02(j) Marriage record.*
> > *002.02(k) A certified death certificate.*
> > *002.02(l) A beneficiary form.*
> > *002.02(m) A statement signed by the individual giving the reason why he or she cannot obtain other convincing evidence of age and the sworn statements of two other disinterested persons who have personal knowledge of the age of the individual.*

Good internal control and sound business practice require procedures to ensure the following: 1) actuarially equivalent annuities contain support to verify that they were obtained from an actuary; 2) benefit calculations are accurate; and 3) proper documentation is on file to support receipt of the retirement application, proof of age, direct deposit instructions, and other pertinent information.

Without such procedures, there is an increased risk of incorrect benefit calculations.

> We recommend OSERS implement procedures to ensure actuarially equivalent annuities contain support to verify that they were obtained from an actuary. Those same procedures should ensure also that benefit calculations are accurate, and proper documentation is on file to support receipt of the retirement application, proof of age, direct deposit instructions, and other pertinent information.

Management Response: OSERS will take the recommendations under advisement and implement procedures for processing a "sign-off" review of individual retirement applications. OSERS will consult with NPERS on its procedure regarding this matter.

4. COLA Concerns

The APA found several issues related to OSERS' application of the annual cost-of-living-adjustments (COLA), as follows:

No COLA for State Service Annuity

OSERS failed to apply the annual COLA to the State service annuity portion of members' benefits. State statute seems to explicitly state that the COLA amounts shall be made for any annuity payment.

The statute granting the service annuity is found in Neb. Rev. Stat. § 79-9,100(8) (Cum. Sup. 2020), as follows:

> *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 . . . .*

The COLA authorization is found at Neb. Rev. Stat. § 79-9,103(8) (Supp. 2021), as follows:

> *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> . . . .*

(Emphasis added.)

Medical COLA Calculation Errors

State statute grants a medical COLA to retirees who have been paid an annuity for at least 10 years. The medical COLA increases each year until the total amount of the supplemental annuity is $250. The OSERS system that performed the COLA calculation was limiting the amount of the COLA, and some members did not obtain the maximum amount of $250.

Section 79-9,103(13) defines the medical COLA as follows:

> *[A] medical cost-of-living adjustment shall be paid to any annuitant who became a member prior to July 1, 2016, and has been paid an annuity from the retirement system for at least ten years through the October 3 adjustment date. The cost-of-living adjustment shall be paid in the form of a supplemental annuity providing monthly payments equal to the amount which results when (a) the fraction, not to exceed one, that results when the annuitant's years of creditable service at his or her retirement date is divided by twenty, is multiplied by (b) the product of ten dollars times the number of years, including attained one-half years, that such annuitant has received annuity payments from the retirement system through the October 3 adjustment date. The supplemental annuity being paid to an annuitant shall increase by ten dollars on October 3 of each subsequent year to reflect the additional year of annuity payments to the annuitant <u>until the total amount of the supplemental annuity is two hundred fifty dollars</u>. In no event shall the medical cost-of-living adjustment for any annuitant pursuant to this subsection result in the payment of a supplemental annuity exceeding two hundred fifty dollars per month. The supplemental annuity paid to an annuitant pursuant to this subsection shall cease at the death of the annuitant regardless of the form of retirement annuity being paid to the annuitant at the time of his or her death.*

(Emphasis added.)

Incorrect CPI Added to System

OSERS staff is responsible for updating the accounting system with the consumer price index (CPI) change each year. This information is used in the calculation of the annual COLA amounts. For the period September 2014 to July 2015, the base CPI amount entered by OSERS was incorrect; therefore, some employees received an incorrect COLA adjustment during that time. However, as of January 2018, the members began to receive the correct 1.5% increase.

Section 79-9,103 contains various provisions related to the COLA increase for members based on the date of the first annuity payments. Section (8) of that statute was used in most of our calculations and is shown below:

> *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 any annuity being paid pursuant to the act, 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. <u>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.</u>*

(Emphasis added.) Good internal controls require procedures to ensure the CPI amounts entered into the system are accurate. This would include a secondary review of the changes made to the CPI rates in the system.

Without such procedures, there is an increased risk of not only members receiving incorrect COLA increases but also noncompliance with State statute.

> We recommend OSERS implement procedures to ensure that the COLA calculations are correct and comply with State statute.

Management Response: OSERS will take the recommendations under advisement and seek legal opinion on the matter of "no COLA for the state service annuity" and the "medical COLA calculation". Regarding the matter of the September 2014-July 2015 CPI, that error has been remedied.

5. <u>Calculation of Required 2% State Contribution</u>

The required 2% State contribution is supposed to be based upon the compensation of all members of the retirement system. However, OSERS' calculation of the 2% compensation included amounts that are not considered compensation under statute. Therefore, the State contributed approximately $26,000 more than required, as shown below:

OSERS Requested Contribution (2% of Gross Earnings)	$ 7,290,168
APA Calculation Required 2% State Contribution	$ 7,264,245
Excess State Contribution	$ 25,923

The State's contribution is set out in Neb. Rev. Stat. § 79-966(2) (Supp. 2021), as follows:

> *For each fiscal year beginning July 1, 2014, in addition to the state transfers required by subsections (1) and (3) of this section, the state shall transfer into the School Retirement Fund an amount equal to <u>two percent of the compensation of all members of the retirement system.</u>*

(Emphasis added.) Neb. Rev. Stat. § 79-978(12) (Supp. 2021) provides the following definition for "compensation":

> *(a) Compensation means gross wages or salaries payable to the member during a fiscal year and includes (i) overtime pay, (ii) member contributions to the retirement system that are picked up under section 414(h) of the Internal Revenue Code, as defined in section 49-801.01, (iii) retroactive salary payments paid pursuant to court order, arbitration, or litigation and grievance settlements, and (iv) amounts contributed by the member to plans under sections 125, 403(b), and 457 of the Internal Revenue Code, as defined in section 49-801.01, or any other section of the code which defers or excludes such amounts from income.*
>
> *(b) Compensation does not include (i) fraudulently obtained amounts as determined by the board, (ii) amounts for accrued unused sick leave or accrued unused vacation leave converted to cash payments, (iii) insurance premiums converted into cash payments, (iv) reimbursement for expenses incurred, (v) fringe benefits, (vi) per diems paid as expenses, (vii) bonuses for services not actually rendered, (viii) early retirement inducements, (ix) cash awards, (x) severance pay, or (xi) employer contributions made for the purposes of separation payments made at retirement and early retirement inducements.*

Good internal controls require procedures to ensure that calculation of the required 2% State contribution includes only statutorily defined compensation.

Without such procedures, there is an increased risk of not only amounts contributed by the State being incorrect but also noncompliance with statute.

We recommend OSERS implement procedures to ensure that calculation of the State's required 2% of compensation includes only compensation defined in statute.

Management Response: OSERS and the District will review and update processes to calculate the amount of statutory compensation to report to the State of Nebraska for calculation of the two percent contribution.

6. <u>Compensation and Service Credit</u>

The APA noted the following issues related to the compensation and service credit used by OSERS:

- The APA tested 25 member contributions and found that two members had retirement contributions based on earnings that were not considered compensation under statute. The compensation for one of the members included a $25 perfect attendance award. The retirement deduction was improperly withheld from this payment. The compensation for the other employee included an annual $185 uniform allowance. The retirement deduction was also improperly withheld from this payment. Because neither payment constituted compensation under State statute, the retirement contribution should not have been withheld on those amounts. For calendar year 2021, the total amount of the perfect attendance award earnings code was $15,605, and the uniform allowance earnings code was $150,220.

- OSERS failed to include all hours in the service credit calculation for 1 of 25 member contributions tested. The service credit did not include holiday hours, which were required to be included.

The definition of "compensation" is found at Neb. Rev. Stat. § 79-978(12) (Supp. 2021), as follows:

(a) *Compensation means gross wages or salaries payable to the member during a fiscal year and includes (i) overtime pay, (ii) member contributions to the retirement system that are picked up under section 414(h) of the Internal Revenue Code, as defined in section 49-801.01, (iii) retroactive salary payments paid pursuant to court order, arbitration, or litigation and grievance settlements, and (iv) amounts contributed by the member to plans under sections 125, 403(b), and 457 of the Internal Revenue Code, as defined in section 49-801.01, or any other section of the code which defers or excludes such amounts from income.*

(b) *Compensation does not include (i) fraudulently obtained amounts as determined by the board, (ii) amounts for accrued unused sick leave or accrued unused vacation leave converted to cash payments, (iii) insurance premiums converted into cash payments, (iv) reimbursement for expenses incurred, <u>(v) fringe benefits</u>, (vi) per diems paid as expenses, <u>(vii) bonuses for services not actually rendered</u>, (viii) early retirement inducements, (ix) cash awards, (x) severance pay, or (xi) employer contributions made for the purposes of separation payments made at retirement and early retirement inducements.*

Section 79-978(23) provides the following definition for "membership service":

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. Credit for more than one year of membership service shall not be allowed for service rendered in any fiscal year. Beginning September 1, 2005, a member shall be credited with a year of membership service for each fiscal year in which the member performs one thousand or more hours of compensated service as an employee of 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. <u>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.</u> If a member performs less than one thousand hours of compensated service during a fiscal year, one-tenth of a year of membership service shall be credited for each one hundred hours of compensated service by the member in such fiscal year. In determining a member's total membership service, all periods of membership service, including fractional years of membership service in one-tenth-year increments, shall be aggregated;

(Emphasis added.) Good internal controls require procedures to ensure that the compensation used to determine the retirement contribution and the membership service credit calculation both comply with State statute.

Without such procedures, there is an increased risk of the compensation used and the service credit calculation being inaccurate.

> We recommend OSERS implement procedures to ensure that the compensation used to determine the retirement contribution and the membership service credit calculation both comply with State statute.

Management Response: The District will review and update earnings codes to ensure only statutorily defined compensation is included in the calculation of retirement contributions. OSERS and the District will review the circumstances of the error noted and adjust processes and procedures as appropriate to ensure that holiday hours are included.

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

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

- Access to the pension module pages allows a user to perform all pension functions without a secondary review. While the main factors used in the benefit calculation are system generated, there were five users with the ability to override fields used in the system calculation or update a table, without a secondary review. None of the five users had the ability to create a new employee record.

- Two District employees had the ability to process a voucher from entry to check issuance without a second individual being involved in the process. Neither of these employees had access to calculate benefit payments. Furthermore, OSERS expenditures are reviewed and approved by the Director and by either the Transition Board of Trustees or the District Board of Education.

- 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 made therein, including overrides of system calculations or changes to tables.

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

    - The system did not track changes to employee or member address or bank information, which is used to issue a payment. The users with this access were not able to process retirement benefits or process payment vouchers.

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

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

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

Management Response: OSERS and the District will review the areas of concern and work with the IMS department to implement more robust segregation of duties and investigate a method of providing an audit history.

8. Active Directory Password Settings

During our review of the District's Active Directory password settings for the PeopleSoft application, we noted that the following settings were not in compliance with the "Digital Identify Guidelines" (Guidelines) issued by the National Institute of Standards and Technology (NIST):

- The Active Directory password setting for minimum password length is six characters; however, the Guidelines recommend a minimum of eight characters for memorized secrets chosen by the user.

- The Active Directory does not compare new passwords against a list of commonly used, expected, or compromised passwords, which is recommended by the Guidelines.

- Stored passwords in the Active Directory are not salted and hashed, which is a method of encryption required by the Guidelines to increase resistance to offline attacks.

- The Active Directory did not have a setting to lock out users after a certain number of invalid attempts. The Guidelines recommend that the maximum number of attempts allowed be 100.

NIST SP 800-63B (June 2017), § 5.1.1.1, provides the following:

> *Memorized secrets SHALL be at least 8 characters in length if chosen by the subscriber. Memorized secrets chosen randomly by the CSP or verifier SHALL be at least 6 characters in length and MAY be entirely numeric. If the CSP or verifier disallows a chosen memorized secret based on its appearance on a blacklist of compromised values, the subscriber SHALL be required to choose a different memorized secret. No other complexity requirements for memorized secrets SHOULD be imposed.*

NIST SP 800-63B (June 2017), § 5.1.1.2, states, in relevant part, the following:

> *When processing requests to establish and change memorized secrets, verifiers SHALL compare the prospective secrets against a list that contains values known to be commonly-used, expected, or compromised. For example, the list MAY include, but is not limited to:*
>
> - *Passwords obtained from previous breach corpuses.*
> - *Dictionary words.*
> - *Repetitive or sequential characters (e.g. 'aaaaa', '1234abcd').*
> - *Context*-specific words, such as the name of the service, the username, and derivatives thereof.
>
> * * * *
>
> *Verifiers SHALL store memorized secrets in a form that is resistant to offline attacks. Memorized secrets SHALL be salted and hashed using a suitable one-way key derivation function.*

NIST SP 800-63B (June 2017), § 5.2.2, says the following, as is relevant:

> *When required by the authenticator type descriptions in Section 5.1, the verifier SHALL implement controls to protect against online guessing attacks. Unless otherwise specified in the description of a given authenticator, the verifier SHALL limit consecutive failed authentication attempts to a single account to no more than 100.*

Good internal controls include procedures for system-enforced password parameters to ensure that users meet the minimum standards contained in the Guidelines.

The lack of such procedures increases the risk of unauthorized users gaining access to sensitive information in the PeopleSoft application.

We recommend the District and OSERS implement procedures and password settings that comply with NIST recommendations.

Management Response: The District will take these recommendations under advisement and investigate ways to implement best practices.

* * * * *

It should be noted this report is critical in nature, as it contains only our comments and recommendations on the areas noted for improvement and does not include our observations on any strengths of OSERS.

Draft copies of the audit report and the accompanying management letter were furnished to OSERS and the District to provide its administrators with an opportunity to review and respond to the information herein. All formal responses received have been incorporated into this management letter. Responses have been objectively evaluated and recognized, as appropriate, in the management letter. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next audit.

This report is intended solely for the information and use of OSERS management, its Board, and others within OSERS, the appropriate Federal and regulatory agencies, and citizens of the State of Nebraska, and it is not suitable for any other purpose. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Zachary Wells

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