

Omaha School Employees' Retirement System

Report to the Board of Trustees

**As of and for the Year Ended
August 31, 2020**

Omaha School Employees' Retirement System

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To the Board of Trustees
Omaha School Employees' Retirement System:

Dear Board of Trustees:

We are pleased to present this report related to our audit of the financial statements of Omaha School Employees' Retirement System (OSERS), a fiduciary fund of Douglas County School District #0001 (District), as of and for the year ended August 31, 2020. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for OSERS' financial reporting process.

This report is intended solely for the information and use of the Board of Trustees and management, and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to OSERS.

Seim Johnson, LLP

Omaha, Nebraska,
November 30, 2020.

Omaha School Employees' Retirement System

Required Communications August 31, 2020

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance*) require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Our Responsibilities With Regard to the Financial Statement Audit

Our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States have been described to you in our arrangement letter dated April 3, 2020. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.

Overview of the Planned Scope and Timing of the Financial Statement Audit

We have issued a separate communication dated April 3, 2020 regarding the planned scope and timing of our audit and identified significant risks.

Accounting Policies and Practices

Preferability of Accounting Policies and Practices

Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.

Adoption of, or Change in, Accounting Policies

Management has the ultimate responsibility for the appropriateness of the accounting policies used by OSERS. OSERS did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.

Significant or Unusual Transactions

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Management's Judgments and Accounting Estimates

Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.

Audit Adjustments

Audit adjustments proposed by us and recorded by OSERS are shown in the attached Summary of Recorded Audit Adjustments.

Uncorrected Misstatements

Uncorrected misstatements are summarized in the attached Summary of Uncorrected Misstatements.

Omaha School Employees' Retirement System

Required Communications August 31, 2020

Departure From the Auditor's Standard Report

The financial statements include investments valued at approximately \$297,382,000 (22% of net position) as of August 31, 2020, whose fair values have been estimated by management in the absence of readily determinable values. A description of the methods used by management is included in Note 3 to the financial statements. Because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material. As such, we have included an emphasis of matter in our audit report. Our opinion was not modified with respect to this matter.

Disagreements with Management

We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.

Consultation with Other Accountants

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

Significant Issues Discussed with Management

No significant issues arising from the audit were discussed or the subject of correspondence with management.

Significant Difficulties Encountered in Performing the Audit

We did not encounter any significant difficulties in dealing with management during the audit.

Letter Communicating Internal Control Related Matters

We have separately communicated the deficiencies in internal control over financial reporting identified during our audit of the financial statements, and this communication is attached as Exhibit B.

Significant Written Communications between Management and Our Firm

Copies of material written communications between our firm and the management of OSERS, including the representation letter provided to us by management, can be provided upon request.

Quality Review

A copy of our most recent quality review is attached as Exhibit A.

Omaha School Employees' Retirement System

Summary of Significant Accounting Estimates August 31, 2020

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events. You may wish to monitor throughout the year the process used to compute and record these accounting estimates. The following describes the significant accounting estimates reflected in OSERS' August 31, 2020 financial statements.

Fair Value of Financial Instruments

Accounting Policy: OSERS reports investments at fair value.

Estimation Process: The Nebraska Investment Council, on behalf of OSERS, invests in both short-term and long-term securities. All investments are stated at fair value based on quoted market prices. 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 August 31 statements are available, those values are used preferentially. However, some partnerships have fiscal years ending at other than August 31. If August 31 valuations are not available, the value is progressed from the most recently available valuation taking into account subsequent calls and distributions.

Comments: Based on our testing, after adjustment, the estimated fair values of investments appear reasonable.

Omaha School Employees' Retirement System

Summary of Recorded Audit Adjustments August 31, 2020

| Number | Date | Name | Account No | Debit | Credit |
|--------|-----------|---|------------|---------------|---------------|
| 1 | 8/31/2020 | Checking - USBank - Retirement | 21-11605 | | 11,000,000.00 |
| 1 | 8/31/2020 | U.S. Bank - Bond Proceeds | 21-13010 | 5,711,410.00 | |
| 1 | 8/31/2020 | Miscellaneous Accts Receivable | 21-16270 | 5,288,590.00 | |
| | | To correct the balance of cash held at 8/31/20. | | | |
| 2 | 8/31/2020 | U.S. Bank - Bond Proceeds | 21-13010 | 5,711,410.00 | |
| 2 | 8/31/2020 | DFA (K911) | 21-13101 | 4,338,181.00 | |
| 2 | 8/31/2020 | BlackRock (K933) | 21-13103 | 13,620,638.00 | |
| 2 | 8/31/2020 | BlackRock ACWI (K9C8) | 21-13108 | 10,453,954.00 | |
| 2 | 8/31/2020 | MFS (K985) | 21-13110 | 3,286,789.00 | |
| 2 | 8/31/2020 | Dodge & Cox (K9CA) | 21-13115 | 4,360,044.00 | |
| 2 | 8/31/2020 | BlackRock (K918) | 21-13130 | 2,775,561.00 | |
| 2 | 8/31/2020 | Wellington (K9E1) | 21-13165 | 1,310,931.00 | |
| 2 | 8/31/2020 | Arrowstreet (K9D8) | 21-13180 | 11,158,806.00 | |
| 2 | 8/31/2020 | PIMCO (K932) | 21-13200 | 7,538.00 | |
| 2 | 8/31/2020 | BlackRock (K9A2) | 21-13210 | | 1,282,225.00 |
| 2 | 8/31/2020 | Neuberger (K9AF) | 21-13280 | | 325,870.00 |
| 2 | 8/31/2020 | Private Equity (K9F8) | 21-13295 | 411,875.00 | |
| 2 | 8/31/2020 | Private Equity (K9FD) | 21-13296 | 1,744,719.00 | |
| 2 | 8/31/2020 | Core Real Estate (K9F3) | 21-13300 | | 11,325.00 |
| 2 | 8/31/2020 | Non-Core Real Estate (K9F4) | 21-13310 | | 6,329,148.00 |
| 2 | 8/31/2020 | Distressed Mortgages (K9F7) | 21-13331 | 571,242.00 | |
| 2 | 8/31/2020 | Hedge Funds (K9F9) | 21-13332 | | 13.00 |
| 2 | 8/31/2020 | Real Estate (K9F5) | 21-13334 | | 2,008,930.00 |
| 2 | 8/31/2020 | Infrastructure (K9F6) | 21-13360 | | 1,679,308.00 |
| 2 | 8/31/2020 | OSERS CONT./WITH. (K9E3) | 21-13361 | 6,000,841.00 | |
| 2 | 8/31/2020 | UnrealizeGain/Loss-Perm Invest | 21-63999 | | 54,115,710.00 |
| | | To correct balance of investments at 8/31/20. | | | |
| 3 | 8/31/2020 | U.S. Bank - Bond Proceeds | 21-13010 | | 1,216,131.00 |
| 3 | 8/31/2020 | Section 79-916 Revenue | 21-43995 | 1,216,131.00 | |
| | | To correct the 2020 state contributions. | | | |
| 1001 | 8/31/2020 | LocalInterest Rcv-TB | 21-14360 | 498,541.00 | |
| 1001 | 8/31/2020 | Due From General Fund | 21-19010 | 4,852,073.00 | |
| 1001 | 8/31/2020 | Due From General Fund | 21-19010 | | 617,646.00 |
| 1001 | 8/31/2020 | Due From Abatement | 21-19015 | 2,156.00 | |
| 1001 | 8/31/2020 | Due From Abatement | 21-19015 | 107.00 | |
| 1001 | 8/31/2020 | Due From KIOS | 21-19035 | 3,533.00 | |
| 1001 | 8/31/2020 | Due From KIOS | 21-19035 | | 705.00 |
| 1001 | 8/31/2020 | Due From Bond Proceed Bldg Fd | 21-19040 | 706.00 | |
| 1001 | 8/31/2020 | Due From Qualified Cap Purp Fd | 21-19050 | | 1,820.00 |
| 1001 | 8/31/2020 | Due From Reimbursable Grant Fd | 21-19060 | 476,154.00 | |
| 1001 | 8/31/2020 | Due From Reimbursable Grant Fd | 21-19060 | | 36,845.00 |

Omaha School Employees' Retirement System

Summary of Recorded Audit Adjustments August 31, 2020

| Number | Date | Name | Account No | Debit | Credit |
|--------|-----------|--------------------------------|------------|--------------|--------------|
| 1001 | 8/31/2020 | Due From Nutrition Services Fd | 21-19080 | 68,433.00 | |
| 1001 | 8/31/2020 | Due From Nutrition Services Fd | 21-19080 | 14,760.00 | |
| 1001 | 8/31/2020 | Due From Depreciation Reserve | 21-19140 | 713.00 | |
| 1001 | 8/31/2020 | Due From Cooperative Act Fund | 21-19150 | 9,683.00 | |
| 1001 | 8/31/2020 | Due From Cooperative Act Fund | 21-19150 | 187.00 | |
| 1001 | 8/31/2020 | Due From ESU 19 Fund | 21-19160 | 83,190.00 | |
| 1001 | 8/31/2020 | Due From ESU 19 Fund | 21-19160 | | 12,592.00 |
| 1001 | 8/31/2020 | Due From Retire Fd | 21-19170 | 6,181.00 | |
| 1001 | 8/31/2020 | Due From Print & Pub | 21-19180 | 8,690.00 | |
| 1001 | 8/31/2020 | Due From Print & Pub | 21-19180 | | 7,292.00 |
| 1001 | 8/31/2020 | Investment Income | 21-41425 | | 2,922,555.00 |
| 1001 | 8/31/2020 | Salary Contribution ESU | 21-41932 | | 46,112.00 |
| 1001 | 8/31/2020 | Salary Contribution ESU | 21-41932 | 9,909.00 | |
| 1001 | 8/31/2020 | Salary Contribution Gen | 21-41933 | | 2,659,151.00 |
| 1001 | 8/31/2020 | Salary Contribution Gen | 21-41933 | 341,124.00 | |
| 1001 | 8/31/2020 | Salary Contribution Nutr | 21-41934 | | 34,131.00 |
| 1001 | 8/31/2020 | Salary Contribution Nutr | 21-41934 | | 7,343.00 |
| 1001 | 8/31/2020 | Salary Contribution Retir | 21-41935 | | 3,075.00 |
| 1001 | 8/31/2020 | Employer Retire Contr ESU | 21-41937 | | 45,769.00 |
| 1001 | 8/31/2020 | Employer Retire Contr ESU | 21-41937 | 9,975.00 | |
| 1001 | 8/31/2020 | Employer Retire Contr Gen | 21-41938 | | 2,680,815.00 |
| 1001 | 8/31/2020 | Employer Retire Contr Gen | 21-41938 | 315,550.00 | |
| 1001 | 8/31/2020 | Employer Retire Contr Nutr | 21-41939 | | 35,015.00 |
| 1001 | 8/31/2020 | Employer Retire Contr Nutr | 21-41939 | | 7,417.00 |
| 1001 | 8/31/2020 | Employer Retire Contr Retire | 21-41940 | | 3,106.00 |
| 1001 | 8/31/2020 | Buy In/ Buy Back | 21-41941 | | 4,338.00 |
| 1001 | 8/31/2020 | Buy In/ Buy Back | 21-41941 | 48.00 | |
| 1001 | 8/31/2020 | Portfolio Manager Fees | 21-53192 | 219,661.00 | |
| 1001 | 8/31/2020 | Other Expenditures | 21-56820 | 1,290.00 | |
| 1001 | 8/31/2020 | UnrealizeGain/Loss-Perm Invest | 21-63999 | 2,203,063.00 | |

Client entry to allocate August
2020 investment income and due to/due from activity.

Omaha School Employees' Retirement System

Summary of Uncorrected Misstatements August 31, 2020

During the course of our audit, we accumulated uncorrected misstatements that were determined by management to be immaterial, both individually and in the aggregate, to the statements of fiduciary net position, changes in fiduciary net position and to the related financial statement disclosures. Following is a summary of those differences:

| | <u>Increase (Decrease)</u> | | | |
|--|----------------------------|--------------------|---|-----------------------------------|
| | <u>Assets</u> | <u>Liabilities</u> | <u>Net Position Restricted for Pensions</u> | <u>Change in Net Position</u> |
| Actual and projected misstatement on valuation of limited partnerships | \$ <u>733,927</u> | <u>--</u> | <u>733,927</u> | <u>733,927</u> |

Quality Review
August 31, 2020



REPORT ON THE FIRM'S SYSTEM OF QUALITY CONTROL

December 14, 2017

To the Partners of Seim Johnson, LLP
and the Peer Review Committee of the Nevada Society
of Certified Public Accountants

We have reviewed the system of quality control for the accounting and auditing practice of Seim Johnson, LLP (the firm) in effect for the year ended June 30, 2017. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; and audits of employee benefit plans.

Quality Review
August 31, 2020

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Seim Johnson, LLP, in effect for the year ended June 30, 2017, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Seim Johnson, LLP has received a peer review rating of *pass*.



Brady Martz and Associates, P.C.

**Letter Communicating Internal Control Related Matters
August 31, 2020**

Internal Control Related Matters Letter

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

In planning and performing our audit of the financial statements of Omaha School Employees' Retirement System (OSERS), a fiduciary fund of Douglas County School District #0001 (District), as of and for the year ended August 31, 2020 in accordance with auditing standards generally accepted in the United States of America, we considered OSERS' internal control over financial reporting (internal control) as a basis for designing auditing 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. 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 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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 consolidated financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in OSERS' internal control to be a significant deficiency:

Internal Control Over Financial Reporting

The design or operations of OSERS' internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in the financial statements on a timely basis. Due to significant turnover of personnel in the accounting and finance department, there was a lack of effective operating controls over the accounting and financial reporting function. Certain reconciliations and estimation procedures to be performed as part of the year-end financial reporting process were not completed by management accurately or in a timely manner.

The initial financial statements as of and for the year ended August 31, 2020 presented to us for audit contained significant misstatements and inconsistencies that required additional attention. Management of the District made significant changes to the initial financial statements presented for audit.

During our audit of the revised financial statements provided by management, certain account balances were not appropriately reported and several audit adjustments were proposed to accurately report the fiduciary net position and activities of OSERS.

The following areas required significant attention and adjustment:

Investments – In reviewing the balances of the investment accounts, we encountered a significant variance due to the timing of entries provided by District management. This resulted in an audit entry to correct the balance of investments and net appreciation in fair value on investments as of August 31, 2020. Additionally, we proposed several reclassifying entries to properly reflect the balance of investment earnings (interest and dividends, net appreciation in fair value, and investment expense).

Reconciliation of cash accounts – In reviewing the balances of the cash accounts, we discovered that management had not properly reconciled the balance of all cash accounts as of August 31, 2020. This resulted in an audit entry to correct the balance of cash and receivable balances as of August 31, 2020.

Accounting for contributions – During our testing of contributions, it was discovered that amounts were improperly recorded for additional revenue and accounts receivable related to contributions from the state of Nebraska. Upon review of support provided by management of OSERS, we proposed an audit entry to correct revenue and receivables as of and for the year ended August 31, 2020.

Management's response:

Management of the District will review and revise where necessary the processes for preparing financial statements. This review will focus on areas that inhibit the timely and accurate preparation of OSERS' financial statements and will include:

- Increased use of analytics to review activity in key accounts on at least a quarterly basis. The District hired a new Financial Planning and Analysis Manager in June as part of the implementation of its new strategic plan and this individual will greatly improve existing processes.
- Documented reviews of quarterly reconciliations of key accounts by the new Accounting Manager that joined the District in August 2020.

There were also several issues that caused adjustments to the normal course of preparing OSERS' financial statements:

- There were a significant number of vacancies leading up to the financial statement preparation process that required existing staff to assume new and unfamiliar duties while still completing their own regular responsibilities.
 - Two Lead Accountants retired on July 31, 2020 and new staff did not assume these roles until September 1, 2020.
 - There were six other open staff positions in July and August. Four of these positions have been filled and the remaining two are in the recruitment process and expect to be filled by January 1, 2021.
- There were two significant issues related to our ability to process transactions in the accounting system during late September. It took the accounting and IMS teams two-weeks to resolve these issues, which delayed the financial statement preparation process.

Management of the District expects this finding to be resolved by August 31, 2021.

Following are descriptions of other identified deficiencies in internal control that we determined did not constitute significant deficiencies or material weaknesses:

Internal Reporting

During our audit procedures, we noted one instance on management's internal detail of account balances for participants where the balance had not been updated since 2015. Upon further review, we determined that the actual account balance of the participant was correct however the query report was not pulling accurate data. We recommend management review this process to ensure all reports provided updated information.

Information Provided to Actuary

During our testing of the January 1, 2020 census, we noted one instance where management provided incorrect information to the actuary which resulted in an error in the monthly balance calculation of a participant. Overall this error was immaterial to the actuarial valuation as a whole. We recommend management review their process of providing data to the actuary in order to ensure accuracy in the annual census information.

This communication is intended solely for the information and use of management and the Board of Trustees and is not intended to be, and should not be, used by anyone other than these specified parties. We would be pleased to answer any questions you may have regarding the comments and suggestions contained in the preceding paragraphs.

Seim Johnson, LLP

Omaha, Nebraska,
November 30, 2020.