

Internal Auditing

July 2013

NEWSLETTER

School Employer Workshops
Nebraska Public Employees Retirement Systems (NPERS)

Internal Audit Process

If you are selected for a NPERS audit, be aware of the internal audit process and requirements. The following is an example of the information that will be required for our audit:

NPERS will send to you a School Employer Questionnaire along with a letter requesting that the questionnaire be completed and returned with the following information:

- A copy of your March 2013 Payroll Register Detail (all employees).
- A copy of your school districts 2012-2013 Master or Negotiated Agreement.

- The selected employees for payroll testing.

For those employees please provide the following:

- Social security number
- Demographic information (address)
- Date of birth
- Date of hire
- Employment position

- For the employees who were selected for payroll testing (**identified above**) please also provide:

- Copy of their 2012-2013 Employment Agreement to include hourly wage or annual salary amounts.
- If the employee is an hourly employee, you will need to provide copies of their timecards (February 2013) that is applicable to the wages that were paid on the March 2013 payroll detail.
- If the employee is not an hourly employee, you will need to explain how you determined the amount of hours reported to NPERS for the March 2013 reporting period (be specific).

- For those selected employees, you will need to review their March 2013 payroll detail to **determine if additional documentation is required.** If gross wages paid include compensation in addition to their monthly wage; you must provide documentation to support the compensation that was paid. **All gross wages must be accounted for.**

- If your school did not settle their negotiations until after the start of the school year, please include that information with our request for information.

- For all employees on the March 2013 Payroll Register Detail who did not contribute to retirement you will need to provide documentation identifying how many hours the employee worked **July 1, 2012 through June 30, 2013.** Documentation may include:

- An hour's report that specifically identifies the month and

how many **actual hours** the employee worked that month (Bus Drivers for example, if your report represents units, units must represent **actual hours worked** and not the total amount of "routes") OR

- Copy of employee timecards that identify how many hours the employee worked that payroll period (timecards should include the total hour's amount).
- If the non-contributing employee worked as a **substitute**, we will need to receive a copy of your substitute "log" (and not timecards) identifying when the employee worked.
- If the employee did not work at all during that month, you must indicate that zero hours were worked. All months July 1, 2012 through June 30, 2013 must be accounted for.

***PLEASE NOTE:** Information that is handwritten or provided in a spreadsheet **without** the documentation described above is **not** acceptable documentation for auditing purposes.

Our Purpose...

The School Employees Retirement Plan is governed by Nebraska State Statutes §79-901 – 79-977.03, in addition to the Nebraska Administrative Code Title 303 Chapter 24. In administering the schools retirement plan, the Board is directed by Neb. Rev. Stat. §84-1503(1) (g) to "adopt and implement procedures in order to verify the accuracy of such information." Regarding the School Plan, Neb. Rev. Stat. §79-906(1) provides, "The director shall, from time to time, carry out testing procedures pursuant to section 84-1512 to verify the accuracy of such information." The NPERS Internal Audit Team is then responsible for performing such testing.

This newsletter is intended to identify areas often found in non-compliance with state statutes and provide information on how to be "audit point free." We will also inform you of our internal audit process and what NPERS will require if you are selected for an audit.

Internal Audit Staff...

If you have any questions, need clarification, or would like to be selected for an internal audit, please contact a member of the Internal Audit Team.

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Top Audit Issues

Documentation:

One of the primary keys to a successful audit is documentation. It is necessary to ensure you can provide documentation to support gross wages that are reported to NPERS; employee contracts; employee salary and hourly wage amounts; and how many hours your employees work each month (etc). **PLEASE pay attention to the information that is requested/required to complete our audit.** On several audits we are not receiving ALL of the information that has been requested (or we are not receiving the correct information). This is causing huge delays as we have to contact many employers several times in attempt to receive the information that is needed. It is essential that all of the information is provided with your first response.

Employee eligibility and ineligibility for the retirement plan:

You must be able to support why an employee is enrolled in the retirement plan as well as why an employee **is not enrolled** in the retirement plan. Whether or not you enroll an employee in the retirement plan, you must be able to provide sufficient documentation to support your decision for timecard employees as well as contract employees. Retirement eligibility is based on hours worked. Therefore, you must be able to provide documentation to support how many **hours** the employee works for each month during the school year, or a substitute log if the employee is a substitute.

Eligible Compensation:

Compensation for determining retirement contributions is to include gross wages or salaries payable to the member for personal services performed during the plan year and includes overtime, holiday pay and **member** contributions to or for an IRS Section 125, 403(b) and 457 Plans. Sick and vacation time are included as long as the employee actually used it. In addition, if a member is paid a stipend due to attending a workshop,

it is considered a personal service performed and should be included in the calculation of gross wages in calculating employee retirement contributions.

Compensation for determining retirement contributions should not include fraudulently obtained amounts, amounts paid to the member for unused sick leave or unused vacation leave; insurance payments converted into cash; reimbursement for expenses; fringe benefits; and bonuses for services not actually performed including early retirement inducements, cash awards and severance pay.

➤ **Ineligible Comp:** If a school district pays for or specifically increases a member's salary to compensate for the Long Term Disability premium or insurance benefits, it is considered a fringe benefit and the amount should **not** be included in the member's total gross wage amount in calculating employee retirement contributions. Even if the LTD premium is then deducted from employee gross wages, it is still considered a fringe benefit if the district specifically pays the employee the amount of the LTD premium and should **not** be included with total gross wages in calculating employee retirement contributions.

➤ **Ineligible Comp:** If an employee elects not to receive insurance benefits and is instead paid the cost of those benefits, **and** that benefit amount is **not** run through a Section 125 or 403B Plan, that pay would be considered ineligible compensation in determining retirement contributions.

Follow-up/Correction of Audit Issues:

Once you receive your final audit letter it is necessary that all corrections and or adjustments are completed in a timely manner. The audit is not actually "completed" until **all** issues have been resolved.



Legislative Changes

LB263 & LB553

Two of the recent legislative changes that have a direct effect on our audit testing are as follows:

1. The term "Regular Employee," for the purpose of participation in the plan, now means an employee with an on-going schedule of 20 hours per week, rather than 15 hours per week (LB553).

PLEASE NOTE: To determine an average per month, a week is defined as 7 days. In order for a month to have 5 work weeks there must be 5 full weeks in that pay period. Four weeks and 3 days is not considered a 5 week month.

2. Compensation capping provisions (to prevent benefit spiking) have been clarified to limit compensation increases to a maximum of 8.0% over the last five working years for the purpose of calculating retirement benefits for members retiring on or after July 1, 2013.

And the Audit Award Goes to...

PONCA PUBLIC SCHOOLS!

Congratulations to Ponca Public Schools. They were audited during FYE13 and no audit issues were noted. Way to go Ponca, we appreciate that!