

# Internal Auditing Newsletter

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## “Adjusting” to Leaves of Absence

One of the issues showing up more and more in recent audits is incorrect reporting of employees who are temporarily out on paid or unpaid leave, resulting in incorrect hours being reported. This has created additional work for reporting agents and NPERS staff, and delayed benefit payments for new retirees. In addition, this may prevent members from purchasing service credit they were unable to accrue due to an authorized leave of absence, resulting in a lifetime reduction in retirement benefits. This article will discuss how to report leaves of absence, discuss what you can do if your software creates reporting issues, and familiarize you with the new Adjustment Report form we have created to help.

As a school reporting agent, you have the important and rather daunting responsibility under the law to provide accurate compensation and service credit data to NPERS. To accurately determine service credit when processing benefits, NPERS needs reporting agents to provide us with the hours worked

by plan members during each payroll period.

State statute defines what hours should be reported for service credit. It includes “*working days, sick days, vacation days, holidays, and any other leave days for which the employee is paid regular wages as part of the employee’s agreement with the employer.*” **Periods of unpaid leave do not fall under this definition and should not be reported to NPERS.** There are two issues that can complicate this process, your payroll software and variables found in the contract language.

Some schools provide compensation for leave authorized under the Family and Medical Leave Act (FMLA) in an employee’s contract. Depending on the contract language, this “paid” leave may or may not be reportable service/compensation for retirement purposes. If you are unsure if this should be reported, please feel free to contact NPERS for assistance. We can review the contract language and provide guidance.

We have also seen situations where an employee is on unpaid leave, but the school will transfer a portion of future compensation to the current payroll period and then dock future compensation. **For retirement purposes, this is unpaid leave and no hours or compensation should be reported for that pay period.** In this situation NPERS needs the *actual hours worked* (and corresponding compensation) for each payroll period.

We recognize some payroll software will not allow you to *initially* report leaves of absence per state statute requirements. In these situations, it is the responsibility of the reporting agent to identify and fix improperly submitted data. To help, we have recently updated our Adjustment Report form to assist you – more on this later.

### When an employee goes on an unpaid leave of absence...

First, you should submit a Non-Contributing Member form indicating they are on leave. This explains why they are not contributing. Do not report hours or compensation if they are on unpaid leave. Resume reporting hours and compensation when they return to work. If they do not return to work, submit another Non-Contributing Member form to report the termination.

# Let's review some scenarios.

**Example 1:** Jill goes on maternity leave starting March 15, ending April 30. This is unpaid leave as she does not have any sick or vacation she can use, nor is this paid leave per her contract. She normally works 160 hours receiving \$5,000 a month. She returns to work May 1.

Here is how this leave should be reported:

March	April	May
\$2,500	\$0	\$5,000
80 Hours	0 Hours	160 Hours

**Example 2:** Sabrina goes on leave to care for a seriously ill family member starting March 15, ending April 30. She has 80 hours of sick/vacation leave she will use in March, but the rest of her absence will be unpaid leave. She normally works 160 hours receiving \$5,000 a month. She returns to work May 1.

Here is how this leave should be reported:

March	April	May
\$5,000	\$0	\$5,000
160 Hours	0 Hours	160 Hours

**Example 3:** Kelly goes on maternity leave starting March 1, ending April 30. This is unpaid leave as she does not have any sick or vacation she can use nor is this paid leave per her contract. The school has agreed to dock her future pay \$1,000 for four months in order to provide a paycheck for her time out on leave. She normally works 160 hours receiving \$5,000 a month. She returns to work May 1.

Here is how your payroll software processes her paycheck (we have also seen incorrect reporting with no hours or 128 hours reported for March and April):

March	April	May	June	July	August
\$2,000	\$2,000	\$4,000	\$4,000	\$4,000	\$4,000
64 Hours	64 Hours	128 Hours	128 Hours	128 Hours	128 Hours

Here is how this leave should be reported:

March	April	May	June	July	August
\$0	\$0	\$5,000	\$5,000	\$5,000	\$5,000
0 Hours	0 Hours	160 Hours	160 Hours	160 Hours	160 Hours

Let's say your payroll software incorrectly reported Kelly's compensation and hours to NPERS based on how she was paid versus the actual hours she worked. When this happens, the report needs to be corrected. NPERS has updated the Adjustment Reporting Form (NPERS6200) to help you fix these reporting errors. This form can be found on the NPERS website ([npers.ne.gov](http://npers.ne.gov)) by going to the side bar on the left of the page down to Member Info > Forms > then scroll down the page to Employer Forms and chose Adjustment Report NPERS6200. The updated Adjustment Form will now do calculations for you when you input information into it.

# School Adjustment Report Form

To correct Kelly’s service and compensation, list the incorrect compensation/hours reported then enter the correct amount. The form will automatically calculate the “Compensation Adjustment Amount” and “Employee Contributions” for you. Please add a note in the “Explanation of Adjustment Field”, such as “incorrectly reported wages during maternity leave”. If this adjustment is in response to an audit finding, please also check NPERS audit box under the explanation section.

HOURS REPORTED TO NPERS	CORRECT AMOUNT OF HOURS	HOURS ADJUSTMENT AMOUNT (+/-)	COMPENSATION REPORTED TO NPERS	CORRECT AMOUNT OF COMPENSATION	COMPENSATION ADJUSTMENT AMOUNT (+/-)	EMPLOYEE CONTRIBUTIONS (+/-)
64.00	0.00	-64.00	\$ 2,000.00	\$ 0.00	-\$ 2,000.00	-195.6000
64.00	0.00	-64.00	\$ 2,000.00	\$ 0.00	-\$ 2,000.00	-195.6000
128.00	160.00	32.00	\$ 4,000.00	\$ 5,000.00	\$ 1,000.00	97.8000
128.00	160.00	32.00	\$ 4,000.00	\$ 5,000.00	\$ 1,000.00	97.8000
128.00	160.00	32.00	\$ 4,000.00	\$ 5,000.00	\$ 1,000.00	97.8000
128.00	160.00	32.00	\$ 4,000.00	\$ 5,000.00	\$ 1,000.00	97.8000

<b>Total Employee Contribution Adjustments (+/-)</b>	<b>\$ 0.0000</b>
<b>Total Employer Contribution (+/-)</b>	<b>\$ 0.0000</b>
<b>Total Adjustments</b>	<b>\$ 0.0000</b>

By completing and submitting (fax or mail) an Adjustment Report form AND then manually adding the adjustment entries to your next online report (refer to page 6-38 to 6-43 of your [Employer Reporting Manual](#)), you can reconcile the hours and compensation on the member’s account so the hours reported are in compliance with state statutes.

If you have questions about reporting leave or filing an Adjustment Report, please contact: Sarah Wuestewald [sarah.wuestewald@nebraska.gov](mailto:sarah.wuestewald@nebraska.gov) or Caleb Taylor [caleb.taylor@nebraska.gov](mailto:caleb.taylor@nebraska.gov) at NPERS for assistance.

## ***Audit Excellence Award***

The 2019 Audit Award goes to:

Our auditing staff found no errors or issues for these districts for the last fiscal year. Congratulations to the employer reporting staff of these schools.

**Bancroft-Rosalie,  
Osmond,  
Bruning-Davenport,  
Clarkson,  
St. Paul,  
Exeter-Milligan,  
and Leyton  
Public Schools!**

# Top 5 Audit Issues for 2019

**1 Documenting eligibility or ineligibility...** You must be able to support why an employee was OR was not enrolled in the retirement plan. Eligibility is based on hours worked; therefore, you must be able to provide documentation to support how many hours all employees work each month during the plan year (July 1 – June 30). This also includes employees who only provide extra duty services. If an employee is a substitute, we will require documentation to support the substitute position (not timecards).

**2 Enrollment of part-time employees...** Permanent employees hired to work an average of at least 20 hours per week on an ongoing, regular basis must immediately begin participation in the plan. Employees hired to work less than this criteria are not eligible to participate, but you still need to monitor their hours worked. A permanent, part-time employee initially hired at less than 20 hours per week, who subsequently provides service for an average of 20 hours or more per week in any three calendar months of a plan year, must begin plan participation the next payroll period.

**3 Reporting Extra Duty Hours...** It is critical to report hours when services are provided to ensure all employees earn their appropriate service credit. Most employees will meet the 1,000 hour requirement for 1 year of service credit over the entire school year. To ensure that those employees who only work a partial school year get their accurate service credit, recording hours when they are worked is imperative.

**4 Participation of Rehired Employees...** All rehired employees must return to plan participation if they previously established eligibility at your school UNLESS they have taken a refund or retirement benefit, or are returning to employment as a “true substitute.” A true substitute is an individual providing service on a temporary, irregular basis to fill in for temporarily absent employees. A true substitute is NOT an individual hired as a regular employee on an ongoing basis to assume the duties of temporarily absent employees.

**5 Substitute Work...** A “true substitute” must not have a regular or ongoing employment relationship with the school district/ESU. Rather, the “true substitute” waits for any school district/ESU to offer them the opportunity to work when a school district’s/ESU’s regular employee is temporarily absent. A full or part-time employee with a regular and ongoing employment relationship with a school district/ESU is not a “true substitute.” When these full or part-time employees pick up additional shifts, they should not be considered “true substitutes.” If they have established plan membership, those hours and compensation should be reported for retirement. If they have not established plan membership, those hours should be counted toward determining eligibility.

**Example 1** Fran has a regular and ongoing employment relationship with school district A. Fran works Monday through Friday 6:30-9:00 a.m. and 1:45-4:45 p.m. School district A asks Fran to drive to an activity on Saturday because the regular activity driver, Jeremy, is out ill. In this case, Fran is not a “true substitute” for retirement purposes. Rather, she is a part-time employee picking up an additional shift.

**Example 2** Bob is licensed to drive busses. Bob does not have a regular and ongoing employment relationship with any school district/ESU. Bob is at home in bed at 5:15 a.m. on a Tuesday when his phone rings. School district A has called and asked Bob to fill in for Fran’s bus route because Fran just called in sick. Bob decides to cover the shift. In this case, Bob is a “true substitute.”

# 2019 School Legislation

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During this session one bill impacting the School reporting agent process was passed.

## **LB 34 - Provisions of LB 36 and LB 565 were amended into LB 34.**

The language amended from LB 36 removed the separate service credit definitions for Tier Four School plan participants. Service credit provisions for Tier Four are now the same as the first three tiers. This is good news for reporting agents as you will no longer have to track Tier Four members separately. In addition, the restrictions on sick bank leave for Tier Four are no longer in effect.

*Additional changes to plan benefits include:*

Under current statute, school plan members who were actively employed and participating in the plan on April 17, 2014, have until April 16, 2020, to apply for and repay a refund. Repayment must be completed no later than April 16, 2020, or termination, whichever is earlier. The amended provisions from LB 36 maintain the application deadline of April 16, 2020, but extend the repayment date to April 16, 2021, or termination, whichever is earlier.

For all refund repayments, members who submit an application to NPERS within one year of termination or within one year of the repayment deadlines outlined in statute cannot utilize the payroll deduction option to repay the refund.

The language amended from LB 565 creates a default beneficiary when a member dies with no eligible beneficiary on file. In this event, a refund of the member account will be paid to the spouse married to the member on the member's date of death. If there is no eligible spouse, benefits will be issued to the member's estate. Members still need to submit beneficiary forms to NPERS. Failure to designate beneficiaries can result in a serious reduction in potential death benefits.