

MACRS

PERAC AUDIT 101



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MACRS 2016 SPRING CONFERENCE

What Type Of Audit Does PERAC Perform?

- Triennial audit
- Mandated by M.G.L. c. 7 § 50(a), c. 32 § 21(1)(a) and 840 CMR 25.00
- Scheduled by Chief Auditor
- Performed by PERAC audit staff; trained, familiar with retirement issues; they “specialize” in MA pension systems
- Final report posted on the PERAC website

2

Audit Alternatives

- You can utilize an outside CPA firm if protocol outlined in PERAC Memo #20/2008 is followed:
 - PERAC inspection of audit work papers; Internal Control Questionnaire (ICQ) completed
 - Notification in advance; meeting optional before; mandatory after completion
 - Allow posting of both financial statements and management letter comments on PERAC website
 - Separate report on the internal controls (Sarbanes/Oxley)
 - CAFR (Comprehensive Annual Financial Report) trend becoming more popular

3

NOTES:

Scope of PERAC Audit

- Compliance with G.L. c. 32, § 21 and associated laws
- Compliance with PERAC Regulations 840 CMR 25.00
- Comply with PERAC format for reporting financial activities and operations
- Use PERAC approved forms and satisfy filing requirements
- Comply with PERAC Memos and follow educational materials

4

How Long Will The Audit Last?

- That depends on:
 - Number of years audited
 - Size of your system
 - Number of contributing units
 - Number of auditors

5

NOTES:

First Step

- Minutes to present
- Check attendance

6

Common Problems

- Attendance less than 75%
- Typos
 - meeting adjourns at 12:14 A.M.
 - “The Board is hopping that ...”

7

NOTES:

Annual Statements

- Should match general ledger
- Check assets against custodian and/or pooled fund manager statements

8

Cash/Internal Controls

- Cash reconciliations at end of audit period and most recent
- Signature cards for bank accounts, custodian, investments
- Wire transfers
- Where are the checks kept?

9

NOTES:

Common Problems

- Cash reconciliation not timely
- Unexplained variance
- Stale checks
- Information not shared with Board

10

Expenses

- Unfamiliar vendors
- Travel expense forms
- Accounting

11

NOTES:

Refunds

- Interest paid
- Does employer understand difference between resigned and terminated?
- Most common error involves 3% when there is a transfer in

12

Transfer

- ASF balance
- Service calculation

13

NOTES:

Pooled Fund Accounting

- Using manager statements
- (Un)realized gains and losses
- Investment income
- Fees

14

Common Comment

- Using custodial reports for accounting
 - not as detailed as manager statements

15

NOTES:

Appropriations

- Full amount from all units
- On-time payments
 - funding schedule assumption
- Verify on bank statements

Active Members

- Folder review
- Payroll review

NOTES:

Choosing Actives

- Receive file from administrator
- Not random
 - Extreme salaries
 - Questionable contribution rates
 - Over 70 years old
 - Veterans
 - New entrants

18

Folder Review

- Enrollment form
- Beneficiary selection
- DD214
- Transfer in from another system
- Buyback calculations and payments

19

NOTES:

Common Problems

- Interest rates for service purchases
- Missing starting date on enrollment form
 - enrollment form salary info- useful for veteran buyback

20

Payroll Review

- Confirm contribution rate
- 2% correct?
- Pay codes – regular compensation or not?
- Employees who are not members of the system

21

NOTES:

Payroll Review

- Review every unit
- Regional systems – send out letters to Treasurers requesting data

22

Retirees

- Examine retiree files thoroughly
- Verify age, service, and salary

23

NOTES:

Retirees Audit Unit / Actuarial Unit

- Actuarial Unit:
 - Checks for reasonableness
 - Estimates salary using deductions

24

Common Comments

- Salary should come from payroll, not deductions
- Unclear pay types should be explained
- Part-time service: handled consistently and according to Board's regulation

25

NOTES:

Retirees

- Confirm amounts on retiree payroll
- Recoup overpayments to the dead?
- Affidavits— annual or bi-annual
- Compare signature to retirement application
- Power of Attorney/Guardianship papers in folder

26

Contracts

- Signed copies
- Fee information
- Compare to invoice
- if 23B, check those requirements
 - should be in one folder

27

NOTES:

Miscellaneous

- Accounts payable and receivable
- 3(8)(c)s in both directions
- 91A over earners

28

Closing Step

- Prepare exit conference document

29

NOTES:

The Exit Conference

- Auditors present draft findings
- Attendees: Board chairperson, administrator, other Board members
- If quorum, public meeting
- Full and free discussion

30

Circulation of the Draft Audit Report

- Circulated among all PERAC Units
- Final draft provided to the Board
- Board discusses at next Board meeting
- Responses due two weeks later

31

NOTES:

Final Audit Report

- Issued to Board
- Published on PERAC's Website
- If no issues/concerns, the audit process ends
- If, however, there are findings in your report ...

32

6 Month Follow-up

- Six months after the publication of your final audit report, your audit team will conduct a follow-up visit to see what corrective actions have been taken in light of the findings in your report.
- PERAC will send a letter to your Board summarizing each issue and whether it has been resolved.

33

NOTES:

COMMONWEALTH OF MASSACHUSETTS

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