

# MACRS

Fall 2022

## Recent Audit Results



Caryn Shea, CPA | Director of Audits | PERAC  
Scott Henderson | Deputy Chief Auditor | PERAC  
MACRS FALL 2022  
October 5, 2022

## Overview

- Results of recent audits
- Common issues identified
- Details on how to identify membership errors
- A few rules not know by many to even exist

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## Reported Audit Results

- Results of the 54 audits completed since October 2019
- There were findings in 32 of the 54 reports (59%)
- Issues totaled 107, broken into 8 categories

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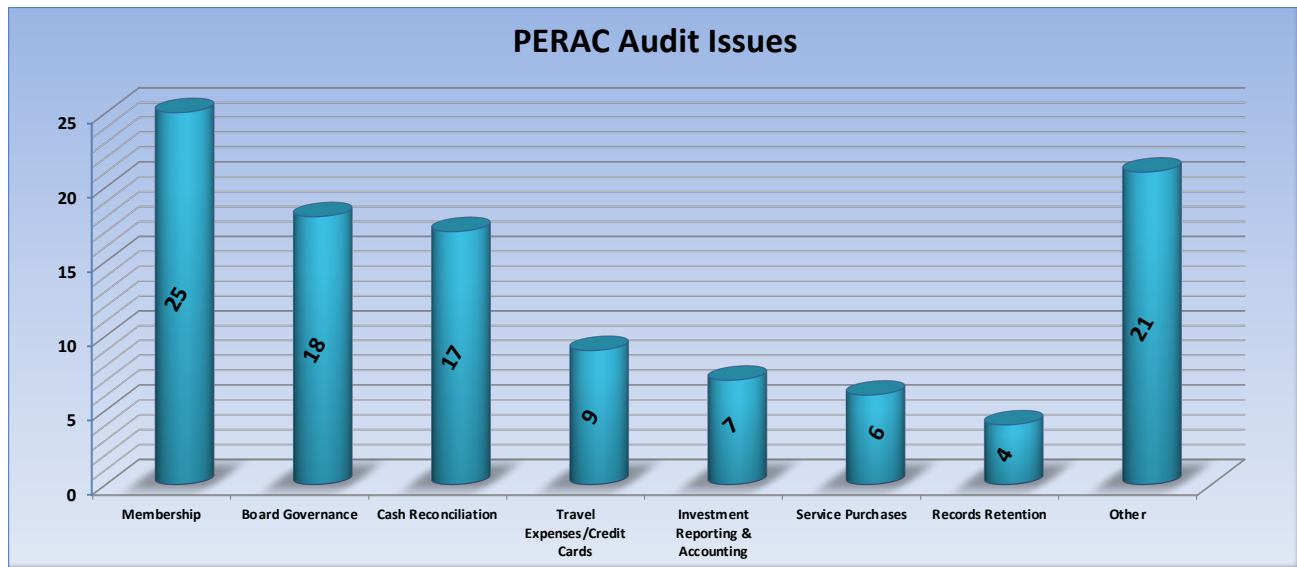
### NOTES:

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## Membership

- Actives, Retirees and Regular Compensation
  - Pay that is regular compensation not having deductions taken
  - Pay codes with deductions taken that are not regular compensation
  - One code for stipends that includes many types of pay
  - Member was contributing at an incorrect rate – 8% instead of 7%
  - Missing PERAC approval letters for disability allowance calculations
  - Vacation payouts included to extend the creditable service time

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### NOTES:

## Membership (Cont'd)

- Retirement allowance calculations include:
  - Too many or not enough weeks of pay
  - More than 3 years of worth of longevity or stipend payments
  - Excess or not enough creditable service
  - Not using actual payroll records to determine salary used
  - One longevity payment was counted as deductions and the Board used the inflated deductions to back into the salary for the calculation
  - Not using the correct regular compensation rate when a member was out on workers compensation within the three highest years

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## Board Governance

- Missing minutes of both open and executive sessions
- No monthly financial reporting reviewed
- Bank reconciliations are not being reviewed
- Monthly meeting not held
- Executive session meetings held without an open session meeting

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### NOTES:

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## Cash Reconciliations

- Treasurer not performing the reconciliations
- Not being done timely
- Unexplained variances between Treasurer and Board
- Stale outstanding checks
- Not being provided to the Board for review
- Includes reconciling items that are carried for months

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## Travel Expenses / Credit Card / Debit Card

- Inconsistent or missing documentation
- Cards used for non-travel purposes
- Not following approved regulations
- No approved regulations

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### NOTES:

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## Investment Reporting and Accounting

- Management fees not recorded in the general ledger account #5304
- Variances between manager statements and general ledger
- Management fees being overcharged
- Discrepancy between general ledger and Annual Statement Schedule 7

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## Service Purchases

- Incorrect rates of interest being charged
- Interest not charged for certain time periods
- Charging interest when they should not - Veterans

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### NOTES:

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## Records Retention

- General ledgers not available/retained
  - Always keep the January-December post-close general ledger
- Expense warrants were not available for certain years
- Member folders did not exist
  - No enrollment form
  - No beneficiary form

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## Other

- 91A Compliance
- Refunds
- 3 (8)(c) Overbillings
- Sick Leave Buyback
- Retiree Affidavit/Overpayment to Deceased Retiree
- Military Service Fund
- Supplemental Schedule/Annuity Saving Fund

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### NOTES:

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## Retiree Errors

- 4 years of once-per-year payments in 3-year period
  - Longevity, education, license certification
  - Remove the oldest one
- What if there is a pro-rated payment on the way out the door?
  - Still want 3 years of payments
  - Need to pro-rate the oldest payment

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## Pro-ration example

Longevity Payments	
7/1/2020	\$500
7/1/2021	\$600
7/1/2022	\$600
10/1/2022	\$150

- For three-year average use
  - \$150 (3 months)
  - \$600 (12 months)
  - \$600 (12 months)
  - \$375 (9 months) ( $\$500 * 9 / 12$ )

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### NOTES:



## Don't Overthink This

- Regular compensation regulation says that payments made as a result of having knowledge of upcoming retirement are not regular compensation.
- This does not apply to these pro-rated payments. Longevity is not paid because you are retiring.
- Many employers (especially school departments) will pay someone a small stipend if they let them know they will be retiring in a certain timeframe- this is the type of pay that the regulation refers to.

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## Superannuation Retirees

- How do you handle a(n approved) leave of absence?
- Receiving service?
  - **Yes**
    - Paid or Unpaid?
      - Paid
        - » If full salary, no adjustment necessary
        - » If partial salary, adjust up to base salary level
      - Unpaid
        - » Use rate in effect prior to the leave for the whole leave
    - **No**
      - Leave must be less than one year
      - Use rate in effect prior to the leave for the whole leave

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### NOTES:

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## Accidental Disability Retirees

- One-year average salary has less than 52 weeks
- Should have PERAC approval letter
  - Even if you have a (superannuation) waiver

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## Termination Allowance

- Eligibility includes members under 55 with 30+ years of service who resign
- Pension is 33% of either a 3- or 5-year average
  - 5 years unless local option to make it 3 is accepted
- Annuity added on top
- Higher for groups 1 and 2 if young enough
- Side note: this benefit does not exist for post-4/1/2012 hires

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### NOTES:

## Termination Allowance Example

- Assume local option for 3-year average adopted
- Group 1
- Age 52 years and 4 months
- Average salary of \$75,000
- ASF Balance of \$125,000
- Service of 31 years

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## First the Superannuation Calculation

- Option A annual allowance
  - $0.012 \times \$75,000 \times 31.0000 = \$27,900$
- **A** annuity calculation
  - $\$125,000 \times 0.00675 \times 12 = \$10,125$

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### NOTES:

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## Next is the Termination Allowance Calculation

- Option A annual allowance
  - Pension is 1/3 of average salary
    - \$25,000
  - Annuity from prior slide
    - \$10,125
  - Allowance is the sum
    - \$35,125
- This benefit is \$7,225 higher than the superannuation

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## Effect of Rounded Age

- Assume member age is 52 years and 7 months
- Everything else is the same
- What changes?
  - Not the superannuation option A
    - Stays \$27,900
  - Termination allowance pension is the same, but
  - The annuity factors use rounded ages
    - **A** annuity is now  $\$125,000 \times 0.00683 \times 12 = \$10,245$
  - Annual allowance for termination allowance now \$35,245
- Should members work slightly longer?

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### NOTES:

## Deferring Retirement

- Section 10(3)
  - If applying within 60 days, retirement date goes back to date of termination of service
  - If applying after 60 days, retirement date cannot be before 15 days after application date
  - Please please please please - do not ask me **why**!!!!

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## Deferring Example 1

- Hired in 1995
- Stopped working in 2010
- Turns 65 on October 10, 2022
- To retire on their birthday, have to apply on or before September 25<sup>th</sup>
  - This day is a Sunday, so deadline is really the 23<sup>rd</sup>
  - Some of you are closed Fridays, so now it's the 22<sup>nd</sup>

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### NOTES:

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## Deferring Example 2

- Hired 2005
- Stopped working September 1, 2022
- On October 5, 2022 there is an application filed with the Board, and the member chooses October 6, 2022 as the retirement date
- This is within 60 days of stopping
  - Retirement date goes back to September 1 automatically
  - Date listed in the application does not matter

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## Deferring Example 2A

- Assume the individual in the prior slide has a date of birth of October 6, 2022
- How can they get the higher age factor?
- Is there a sequence of events that would allow them to retire on their birthday?

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### NOTES:

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## Deferring Example 2A (Cont'd)

- If they just want the higher age factor, can wait more than 60 days to apply and then retire 15 days after that
  - Can apply in early November for a date in mid/late November
- To retire on their birthday requires a time machine
  - Go back to when they were an active member
  - Active members applying to retire are covered under Section 5
    - Can choose any day within the next 4 months
    - Could have filed in (most of June,) July or August to retire October 6, 2022

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## Service Purchases- Rate History

Purchase calculated:	Refunds	Non-member time in another system	Non-member time in the same system		Military Service
before 7/1/2005	ASF interest	ASF interest	ASF interest		none
7/1/2005-6/30/2008	buyback interest	buyback interest	ASF interest		none
7/1/2008-4/1/2012	buyback interest	buyback interest	buyback interest		none
4/2/2012-4/1/2013	buyback interest	buyback interest	buyback interest		none
after 4/1/2013	***	actuarial interest	buyback interest		none

\*\*\* New members get charged buyback interest up to one year after enrollment, after that it is actuarial interest. People with membership dates prior to 4/2/2012 are charged actuarial interest.

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### NOTES:



## Service Purchases - Other Errors

- Not charging interest for the part of the year after the refund
  - **Tyler calculation** – highlighted balance should be higher than the refunded amount

Page 1

[REDACTED] Retirement System  
Buyback Calculation  
For [REDACTED] Social Security: [REDACTED]  
For the Period from [REDACTED] to [REDACTED]

Year	Intr Rate	Intr Mos	Cred Serv	Wages	Ded Rate	Base Contrib	2% Contrib	Interest	Balance
1986	4.000	12	0	\$47,205.43	7	\$3,304.38	\$0.00	\$248.21	\$3,552.59
1987	4.000	12	0	\$0.00	0	\$0.00	\$0.00	\$142.10	\$3,694.69
1988	4.000	12	0	\$0.00	0	\$0.00	\$0.00	\$147.79	\$3,842.48
1989	4.000	12	0	\$0.00	0	\$0.00	\$0.00	\$153.70	\$3,996.18
1990	4.000	12	0	\$0.00	0	\$0.00	\$0.00	\$159.85	\$4,156.03
1991	4.000	12	0	\$0.00	0	\$0.00	\$0.00	\$166.24	\$4,322.27
1992	4.000	12	0	\$0.00	0	\$0.00	\$0.00	\$172.89	\$4,495.16

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## Service Purchase Errors (Cont'd)

- Not charging member for the tax portion of the refund
- Not charging the contribution rate in effect for non-member time
  - 1996 is half 8% and half 9%
- Not pro-rating part-time service according to the Board regulation
- Not locking in the interest rate during a payment plan
  - Change in actuarial investment return assumption not reflected in in-process plans
- Not handling partial payments correctly

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### NOTES:



## Paying for Some, But Not All, Time

- If prior time was refunded, credit service based on the percentage paid
  - Can be tricky if there was an installment plan due to continued accruing of interest
- If prior time was non-member time, credit service in reverse chronological order (most recent first)
  - Wrongfully excluded time should be handled this way too

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## The Rarest Rule

- Section 3(6)(c)
  - Return to same unit within two years of refund
  - Interest stops as of the date of reemployment

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### NOTES:

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## Contact Information

- Caryn Shea, CPA, PERAC Director of Audits

✉ Caryn.M.Shea@mass.gov

- Scott Henderson, PERAC Deputy Chief Auditor

✉ Scott.Henderson2@mass.gov

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**QUESTIONS?**

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### NOTES:

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## **COMMONWEALTH OF MASSACHUSETTS**

### **Public Employee Retirement Administration Commission**

Five Middlesex Avenue, Suite 304 | Somerville, MA 02145

Phone: 617-666-4446 | Fax: 617-628-4002

TTY: 617-591-8917 | Web: [www.mass.gov/perac](http://www.mass.gov/perac)

