



Chesterfield County, Virginia Internal Audit

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GREG L. AKERS
Director

DATE: February 13, 2018

TO: James F. Lane, Ed.D.
Superintendent

FROM: Greg L. Akers 
Director of Internal Audit

SUBJECT: School Retirement Contribution Timeliness Special Project

CONCLUSION

Internal Audit conducted this project based on a hotline tip from an anonymous school employee concerned about deposit delays to their retirement plan accounts. Our evaluation of Chesterfield County Public Schools (CCPS) retirement contributions confirmed that timely deposits have not been made to the Virginia Retirement System (VRS) and ICMA-RC 401(a) plan during the period July 1, 2017 through November 30, 2017. The separate Voluntary 457 deferred compensation deposits to the Variable Annuity Life Insurance Company (VALIC) were made each payroll period in a timely manner. Analysis of the associated retirement liability accounts for July 1, 2014 through November 30, 2017 also indicates untimely journal entry posting.

BACKGROUND

On November 6, 2017, an anonymous employee contacted Internal Audit and described that certain payroll contributions were not deposited timely into their individual account statements. The employee's account would not show deposits for several months.

The VRS Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. In general, this plan applies to all school employees whose hire date is on or after January 1, 2014.

- The employer makes a monthly defined benefit contribution (DB) for each employee based on the employer contribution rate which must be transmitted to VRS by the 10th of each month following the month in which the employee's compensation was earned.

- The defined contribution (DC) component provides the Hybrid 401(a) cash match plan. Employers and employees contribute a mandatory 1% of salary each payroll period. In addition, the employee can make additional voluntary 457 plan contributions which are matched by the employer up to 2.5%. All mandatory contributions, along with employer matching component are placed into the Hybrid 401(a) cash match plan. The 457 voluntary contributions are placed into the Hybrid 457 Deferred Compensation Plan. These defined contributions should be remitted each pay period as soon as administratively possible to the third-party administrator ICMA-RC.

VRS requires employers schedule and approve contribution remittances. There are separate online processes for the defined benefit (myVRS Navigator) and defined contribution (EZLink) components. VRS provides employers with system options to assist with contribution detail by participant. If timely deposits are not made, employers are responsible for corrective actions which may include covering employee lost earnings from late remittances. Voluntary 457 deferred compensation deposits are made separately to VALIC each pay period.

Each payroll, retirement liabilities are recorded in accounting records. Approved retirement contribution remittances are paid by the Treasurer and the School Accounting department. Subsequently, School Payroll provides the County’s Accounting department with related support and adjusting entry to reduce retirement liability accounts.

OBJECTIVES, SCOPE & METHODOLOGY

Objectives:

- Determine if the employer and employee retirement contributions are remitted in a timely manner to VALIC, VRS, and ICMA-RC.
- Determine if journal entries for retirement remittances are made in a timely manner to provide accurate information on liabilities for decision makers.
- Report results to management.

Scope:

Our scope included School retirement contribution liabilities from July 1, 2014 through November 30, 2017. We also examined transmittal payment support and journal entries to retirement accounts from July 1, 2017 through November 30, 2017.

Methodology:

Our methodology included:

- Examining deposit confirmations from VALIC, ICMA-RC and VRS with the corresponding journal entries into ONESolution made to record the payment for all deposits from July 1, 2017 through November 30, 2017.
- Inquiring with School Finance and Payroll, Treasurer’s Office and County Accounting to understand the processes surrounding the retirement deposits.
- Review general ledger detail from July 1, 2014 through November 30, 2017 for the following School retirement liability accounts:

Employee accounts:

- 240530 – Employee 457 plan withheld (VALIC)
- 240531 – 457 VRS hybrid EE (ICMA-RC)

- 240610 – Retirement prof employee (VRS)
- 240612 – Retirement DC employee (ICMA-RC)
- 240614 – VRS DB employee (VRS)

Employer accounts:

- 250600 – Retirement contributions (VRS)
- 250612 – Retirement DC employer (ICMA-RC)
- 250614 – VRS DB employer (VRS)

We conducted this special project as a performance audit in accordance with generally accepted government auditing standards, except the risk and internal control assessment was more targeted to the specific allegations versus a comprehensive evaluation of the program. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Khara Lounsbury, Senior Auditor, performed the audit work. Chesterfield County Internal Audit is a department within the organization of Chesterfield County/Schools.

FINDINGS

Deposit and Journal Entry Analysis:

Remittances to VALIC are being made each payroll for July 1, 2017 through November 30, 2017 and is illustrated below. On average, the deposit is made two days prior to the payroll date and is recorded three days after the deposit. The average obligation per payroll approximates \$33,000. The timing of these deposits and subsequent recording in accounting records appear reasonable.

VALIC (457 Plan)

Payroll Date	Deposit Date	Recording Date
7/14/2017	7/11/2017	7/14/2017
7/31/2017	7/31/2017	7/31/2017
8/15/2017	8/14/2017	8/15/2017
8/31/2017	8/28/2017	8/31/2017
9/15/2017	9/15/2017	9/15/2017
9/28/2017	9/26/2017	9/29/2017
10/13/2017	10/10/2017	10/13/2017
10/31/2017	10/31/2017	10/31/2017
11/15/2017	11/9/2017	11/15/2017
11/30/2017	11/27/2017	11/30/2017

Remittances to ICMA-RC are not being made each payroll as required for July 1, 2017 through November 30, 2017 and is illustrated below. On average, the deposit is made 36 days after the payroll date and is recorded in accounting records 16 days after the deposit. The average obligation per payroll approximates \$75,000. The timing of these deposits and subsequent recording is not being made on a timely basis.

ICMA-RC (401(a) Plan)

Payroll Date	Deposit Date	Recording Date
7/14/2017	9/14/2017*	10/30/2017
7/31/2017	10/13/2017*	10/30/2017
8/15/2017	9/14/2017*	10/30/2017
8/31/2017	12/1/2017*	12/6/2017
9/15/2017	11/22/2017*	12/6/2017
9/28/2017	12/1/2017*	12/6/2017
10/13/2017	11/27/2017*	12/21/2017
10/31/2017	12/1/2017*	12/21/2017
11/15/2017	12/4/2017*	12/21/2017
11/30/2017	12/8/2017*	12/21/2017

Note: * indicates late deposit

The monthly remittances to VRS have not been made timely for July 1, 2017 through November 30, 2017 and is illustrated below. Each month, a separate deposit is made for professional and non-professional employee classifications. Professional deposits were late 4 of the 5 months examined and non-professional were late 2 of the 5 months examined. Recording date averages 22 days after the deposit. The average obligation per period is \$4,800,000.

VRS

VRS Due Date	Deposit Date	Recording Date
Professional		
8/10/2017	8/10/2017	10/30/2017
9/11/2017	10/18/2017*	10/30/2017
10/10/2017	11/20/2017*	12/1/2017
11/10/2017	11/27/2017*	12/21/2017
12/10/2017	12/13/2017*	12/21/2017
Non-Professional		
8/10/2017	8/10/2017	10/1/2017
9/11/2017	9/7/2017	10/1/2017
10/10/2017	11/9/2017*	12/6/2017
11/10/2017	11/21/2017*	12/21/2017
12/10/2017	12/7/2017	12/21/2017

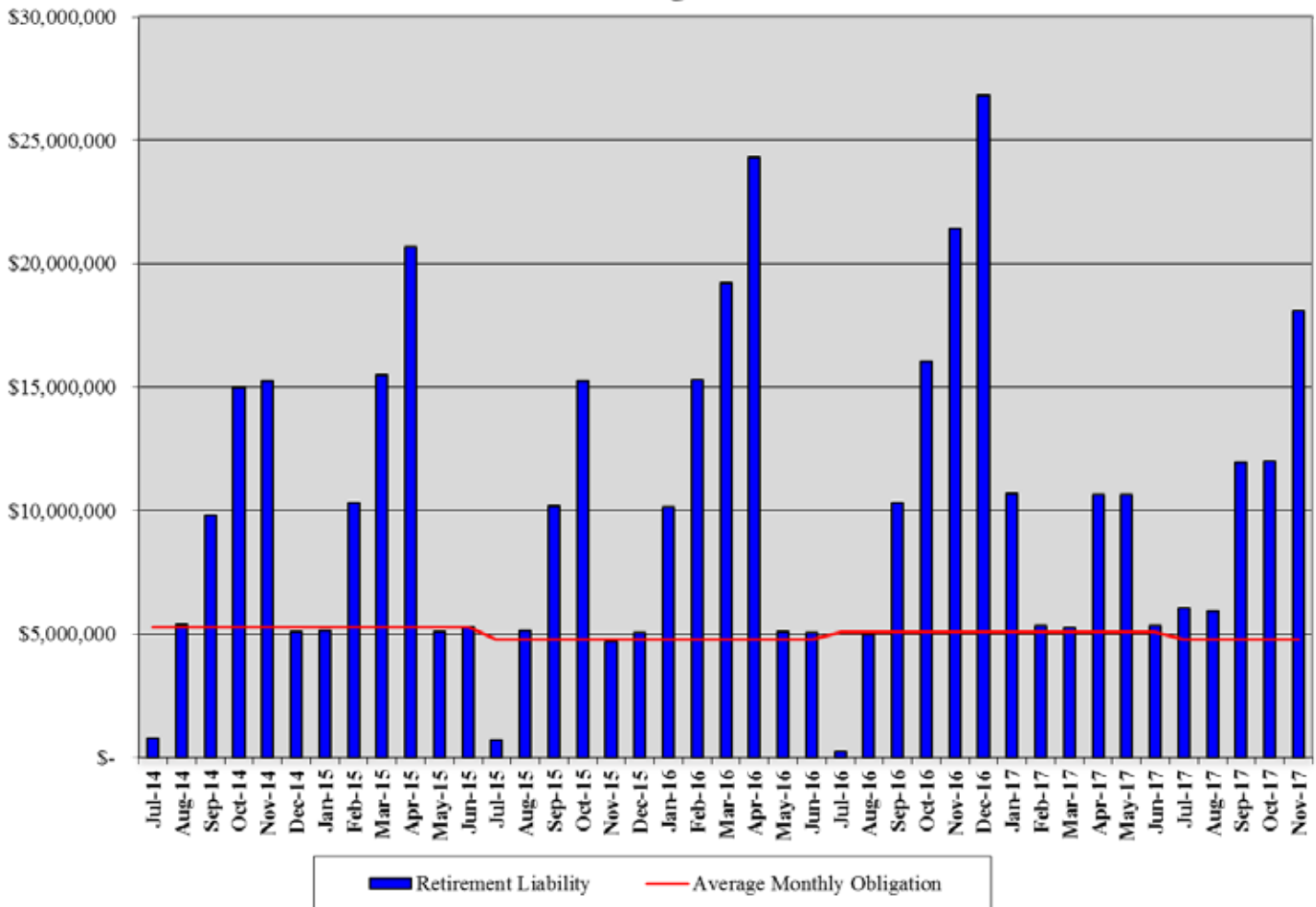
Note: * indicates late deposit

School payroll is not utilizing the online batch upload option for the VRS (myVRSnavigator) and ICMA-RC (EZLink) for contributions each period. Our understanding is that a payroll employee is manually entering contributions for each employee into these sites. Because of the time this entails, general ledger entries for processed deposits are not being made timely.

Liability Account Analysis:

The chart below summarizes general ledger activity for the retirement liability accounts reviewed. Month-end payroll liability, if all paid timely, should not exceed \$10m. When school payroll submits the contributions through the Treasurer’s Office, a matching liability adjustment may not be made for several months which allows the liability accounts to escalate. The delays in posting journal entries after payments are made result in inaccurate financial records. Trial balances are not being reviewed in a manner or method to detect missed payments.

School Retirement Liability Balance Compared to Average Monthly Obligation



RECOMMENDATION(S):

We recommend School Finance:

1. Coordinate with VRS and ICMA-RC to determine need for voluntary corrections to make employee accounts whole for lost earnings due to late contributions.
2. Upload VRS contributions by the 10th of each month following the month in which the employee's compensation was earned and ICMA-RC contributions each payroll period as required.
3. Provide the County Accounting department with adjusting entry supporting documentation soon after a payment is made to ensure accurate general ledger liability information is available for management and decision makers.
4. Utilize electronic batch upload options available from VRS and ICMA-RC to increase efficiency and timeliness of deposits.
5. Designate responsibility to perform monthly school trial balance review to ensure liabilities are clearing as expected.

MANAGEMENT'S RESPONSE(S):

1. *Concur. Donita Harper, Director of Finance is responsible for implementing 3/31/18. We will contact VRS/ICMA-RC to determine next steps.*
2. *Concur. Donita Harper, Director of Finance, and Sharonda Hurt, Payroll Manager were responsible for implementing 1/10/18. The VRS snapshot is completed by the 10th of the month as required. Ms. Harper verifies with Payroll that this process is completed.*
3. *Concur. Donita Harper, Director of Finance, and Sharonda Hurt, Payroll Manager are responsible for implementing 3/10/18. As soon as the snapshot is verified, on or before the 10th of the month, the County Accounting department will be provided with the necessary supporting documentation for the general ledger to be updated timely.*
4. *Concur. Donita Harper, Director of Finance is responsible for implementing 4/30/18. Ms. Harper is currently researching the necessary steps to complete a batch file for the ICMA-RC component of VRS reporting. We currently process batch reporting for the VRS component.*
5. *Concur. Donita Harper, Director of Finance is responsible for implementing 3/1/18. Ms. Harper will review the trial balance monthly to ensure the journal entry is entered and posted accurately by the County Accounting department to reflect the monthly payment.*

CLOSING

We appreciate the cooperation and assistance received from the Superintendent and his staff throughout this audit.

cc: Donald Fairheart, Chief of Staff
Christina Berta, Chief Financial Officer
Joseph P. Casey, Ph.D., County Administrator
Audit and Finance Committee

February 2018

Highlights

Internal Audit Report to the Board of Supervisors/School Board

Why We Did This Project

Internal Audit conducted this project based on information received from the fraud hotline. An anonymous school employee, eligible for the hybrid retirement program, described certain retirement contributions were not deposited timely into their VRS account.

Our objectives were to:

- Determine if the employer and employee retirement contributions are remitted in a timely manner per VRS requirements to VALIC, VRS, and ICMA-RC.
- Determine if journal entries to the general ledger are made on a timely basis to provide accurate information for decision makers.
- Report results to management.

What We Recommend

- CCPS coordinate with VRS and ICMA-RC to determine need for voluntary corrections to make employee accounts whole for lost earnings due to late contributions.
- Upload VRS contributions by the 10th of each month following the month in which the employee's compensation was earned and ICMA-RC contributions each payroll period as required.
- Provide the accounting department with adjusting entry supporting documentation soon after a payment is made to ensure accurate information is available for management and decision makers.
- Utilize electronic batch upload options available from VRS and ICMA-RC to increase efficiency and timeliness of deposits.
- Regular review of school trial balance accounts to increase monitoring of accounts.



For more information, please contact
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School Retirement Contribution Timeliness Special Project



What We Found

Background

The Virginia Retirement System (VRS) Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. In general, the plan applies to all school employees whose hire date is on or after January 1, 2014.

VRS requires that deposits are made online via myVRS Navigator for the defined benefit component and EZLink for defined contribution components. VRS provides employers online payroll batch interface options to assist with timely deposit.

VRS requires timely deposit of contributions. If timely deposits are not made, employers are responsible for taking corrective actions which may include adjustments back to the start of employment to correct employee lost earnings.

Internal Audit reviewed general ledger detail from July 1, 2014 through November 30, 2017 for all school retirement liability accounts identified to determine the timeliness of journal entries to record deposits. Additionally, we examined deposit confirmation from VALIC, VRS, and ICMA-RC with supporting journal entry documentation for all deposits from July 1, 2017 thru November 30, 2017.

Summary of Findings

- In general, voluntary 457 deferred compensation deposits to VALIC are made each payroll period and recorded in the accounting records within a reasonable time.
- All ICMA-RC (401(a) Plan) payments reviewed were deposited late, averaging 36 days after the pay period. Recording deposits in the accounting system is made an average of 16 days after the payment. The average obligation per payroll is \$75,000.
- VRS monthly obligations of approximately \$4,800,000 were sent late 4 of the 5 months examined for professional employees and non-professional deposits were late 2 of the 5 months examined. Entry into the accounting system is made an average of 22 days after the payment.
- CCPS payroll is not utilizing the online batch upload option for the VRS (myVRSnavigator) and ICMA-RC (EZLink) for contributions each period. Manual entry for contribution data by employees has delayed processing.
- Trial balances are not being reviewed in a manner or method to detect missed and untimely payments.

Management concurred with the 5 of 5 recommendations to be implemented by April 30, 2018.

We appreciate the cooperation received from management and staff while conducting this audit.