

# PENSIONS-SESSION II

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Playing Nice With Others for a Smooth  
Implementation and Audit

# Session Outline

## **GASB 68 changes everything for the Employer**

- **Bob Scott**

## **Dividing Up the Responsibilities for Implementing GASB 67/68**

- **TMRS Actuary - From the Background to the Spotlight**
  - **Leslee Hardy - TMRS**
- **TMRS - Command Central**
  - **Rhonda Covarrubias - TMRS**
    - **What's changed, what hasn't**
    - **Where to find the information**
- **TMRS External Auditor - new roles and responsibilities**
  - **Susan Warren, KPMG**
- **Finish and Questions**

# GASB 68 CHANGES EVERYTHING

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Bob Scott

# GASB 68-A Whole New World

- Under GASB 27, the employer's risk of material misstatement was focused on the ARC:
  - Relatively small number
  - Huge amount of flexibility in calculating
  - Smoothing diluted the need for an exact number
- Under GASB 68, the risk of material misstatement is much higher:
  - NPL will be a much larger number than the ARC
  - NPL is much more precisely calculated
  - A small NPL doesn't necessarily reduce risk
  - Implementation coming at a time of unprecedented scrutiny of public pensions

# Enter AICPA Whitepapers

- The AICPA had to reconcile this increased risk of misstatement with the existence of multiple employer plans that generated all the information
- In response, the SLGEP issued three whitepapers:
  - Cost-Sharing Plans
  - Agent Plans
  - Census Data for Cost-sharing and single employer plans
- The link to the whitepapers and related interpretations is:  
<http://www.aicpa.org/INTERESTAREAS/GOVERNMENTALAUDITQUALITY/RESOURCES/GASBMATTERS/Pages/default.aspx>

# Conductor to the Orchestra

Like an orchestra conductor, the whitepapers determine who does what and when, with the ultimate goal of providing adequate audit evidence for:

- the employer to take responsibility for the pension numbers in their financial statements
- the employer's auditor to express an opinion on the fair presentation of those financial statements.

# Important Distinction

- The whitepapers do not relieve the employer or their auditor of responsibility for the pension numbers. It recognizes the responsibility, emphasizes the responsibility, and provides tools and resources for meeting the responsibility.
- **The employer and their auditor must still decide how much audit evidence is enough audit evidence.**

# Employer Auditor Responsibilities

- All the procedures and documentation performed by TMRS, TMRS's auditor, TMRS actuary and the employer themselves are designed to assist the employer auditor in gathering sufficient and appropriate audit evidence to support their opinion on the pension numbers.
- Ultimately, however, the opinion on the employer's financial statements including the pension numbers is the employer auditor's responsibility.
- The employer auditor must ultimately decide how much and what type of evidence is sufficient.



# TMRS ACTUARY – FROM THE BACKGROUND TO THE SPOTLIGHT

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Leslee Hardy

# Responsibilities-TMRS Actuary

- Certification of census data used in the valuation
- Funding valuation
- GASB 68 reporting package addressed to each employer signed by GRS actuaries

# Responsibilities-TMRS Actuary

## Continued

- Serving as a conduit to provide the census data used by GRS in the individual valuations
  - Provides GRS with detailed census file
  - GRS performs data cleansing and reformatting before using for valuation
  - Once file is ready for the valuation, certain sensitive information such as SSN is redacted; the census data file will be available on the TMRS City Portal (city-specific)

# Employer Responsibilities

The agent whitepaper states:

*“The employer is solely responsible for its financial statements and, therefore, employer management is responsible...over the measurement of its specific pension amounts”*

Employer responsibilities include:

- Evidence regarding the reasonableness of the assumptions
- Completeness and accuracy of the census data
- Evidence supporting the calculation of the discount rate

# Reasonableness of Assumptions

- This is a difficult employer responsibility so keep in mind:
  - Reliance must be placed on the expertise of the actuary
  - Assumptions are divided into two categories:
    - Economic (Inflation, Long-term Rate of Return, etc.)
    - Demographic (Mortality, turnover, retirement age, etc.)
  - A reasonable assumption can be high or low in any given year
    - Actuarial gains and losses should have some offset from year to year and between assumptions
    - Remember these are long-term (20-30 year horizon) so a few years of losses or gains in a row does not make an assumption unreasonable particularly if we are in an economic extreme

# Reasonableness of Assumptions – continued

- Actuaries will conduct experience studies every 4-5 years which will document the reasons behind the assumptions. TMRS will have these experience studies available on the web-site.

# Other Employer Responsibilities

- Completeness and accuracy of census data
  - Possible procedures
    - Tracing active employees from payroll records to census data and checking key information (salary, participation date, age, etc.)
    - Tracing current year terminations per payroll records to census data to verify status and date of termination.
    - Tracing non-contributing in-actives per the census data back to the originating employment records.
    - Retiree data is the responsibility of TMRS (SOC audit). TMRS will provide trend information by age groups.
    - Analytical review for overall reasonableness

# Other Employer Responsibilities

- Discount Rate Calculation
  - Blended rate not likely to be an issue due to:
    - Statutory requirement for member cities to contribute the required contribution
    - Strong amortization policies in general (and for small cities), combined with closed amortization periods make the possibility of a crossover point remote
  - 100 year cash flow projections (by city) will be on the TMRS website
- Substantively Automatic Benefits (USC and COLA) in calculating TPL
  - GASB does not define “substantively automatic”
  - If your city consistently adopts ad-hoc benefits, TMRS has provided a system-wide default (beginning 1/1/15); one out of the last two years AND two out of the last five years
  - Ultimately however, whether Ad Hoc benefits are to be considered “substantively automatic” is the employer and their auditors call



# TMRS - COMMAND CENTRAL

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Rhonda Covarrubias

# What's Changed - Reporting Packages

## Current

- Only one reporting package for both funding and reporting. (“Rate Letter Package”)
- Available on TMRS web-site

## Post GASB 68

- TMRS web-site
  - Rate Letter Package – funding purposes only
  - Employer Reporting package – for each city, to include:
    - Actuarial certification letter (on GRS letterhead)
    - Info / data for disclosures
  - General Information
    - System-wide funding policy
    - Qualifications of consulting actuary
    - Note information on investments
    - Employer Reporting Guide / FAQ’s (walks city through the Employer Reporting package)

# What's Changed-Reporting Packages

## Current

- TMRS City Portal
  - Specific for each city
  - Used for queries; run estimates.

## Post GASB 68

- TMRS City Portal
  - SOC 1 Type 2 report
    - On census data
    - On controls over contributions and distributions made by cities
    - On IT-related controls (access, backups, system changes, etc.)
- TMRS CAFR
  - Schedule of Changes in Fiduciary Net Position by Employer with related notes and audit opinion on the “schedule as a whole”

# Excerpt from the TMRS 2013 CAFR – Changes in BAF

This will be the “start” to the new Schedule of Fiduciary Net Position, by city

For GASB reporting purposes, all assets of TMRS will be “allocated” to the cities. These are not assets in the city’s account, but are only allocated for financial reporting purposes.

City Number	Participating Municipality	Balance Jan. 1, 2013	Additions			Deductions					Balance Dec. 31, 2013
			Employer Contributions	Employee Contributions	Interest	Service Retirements	Disability Retirements	Partial Lump Sum Distributions	Refunds	Escheated Accounts*	
01399	Winona	622,284	46,457	26,548	60,390	32,073			3,324		720,282
01400	Winters	2,588,090	50,541	24,241	251,162	117,904	1,685	21,982	4,465	372	2,767,626
01403	Wolfforth	1,886,213	83,405	51,676	183,048	71,601			41,545	671	2,090,525
01409	Woodcreek	80,279	904	3,477	7,791	5,202					87,249
01404	Woodsboro	531,936	3,184	17,120	51,622	22,063			5,948		575,851
01406	Woodville	4,283,301	187,904	88,215	415,674	135,294		9,961	11,504		4,818,335
01407	Woodway	14,893,252	633,430	274,042	1,445,320	380,700			54,631	2,216	16,808,497
01408	Wortham	442,360	10,767	18,510	42,929	1,572			4,136	328	508,530
01410	Wylie	30,320,638	1,878,953	1,009,416	2,942,476	562,802	16,989	184,832	200,849	1,553	35,184,458
01412	Yoakum	16,356,188	580,932	194,835	1,587,291	807,017	28,109	108,733	66,052		17,709,335
01414	Yorktown	1,314,189	5,861	23,110	127,536	74,129			26	1,791	1,394,750
01415	Zavalla	470,501	5,036	12,043	45,660	21,510			34,899		476,831
	<b>TOTALS</b>	<b>\$20,351,426,128</b>	<b>\$680,775,833</b>	<b>\$339,906,924</b>	<b>\$1,975,010,474</b>	<b>\$793,765,281</b>	<b>\$16,380,337</b>	<b>\$135,568,703</b>	<b>\$57,727,674</b>	<b>\$1,764,823</b>	<b>\$22,341,912,541</b>

# Sample – Employer Reporting Package

## TABLE OF CONTENTS

Certification Letter addressed to City

**Section A     Executive Summary**

Executive Summary  
Implementing and Reporting your Pension Amounts

**Section B     Financial Schedules**

Schedule of Pension Expense  
Schedule of Outflows and Inflows – Current and future expense  
Schedule of Changes in Net Pension Liability and Related Ratios - Current Period  
RSI - Schedule of Changes in Net Pension Liability and Related Ratios - Multiyear  
RSI - Schedule of Contributions - Multiyear  
Notes to Schedule of Contributions  
Sensitivity of the NPL to changes in the Discount Rate

**Section C     Actuarial Assumptions & Plan Provisions**

**Section D     Deferred Inflows/Outflows of Resources – amortization schedules for future pension expenses**

**Section E     Glossary of Terms**

# Responsibilities-TMRS

- Internal Controls and Reporting
  - It all begins with reliable, relevant and verifiable information distributed to the right parties in a timely manner
    - Actuarial funding valuation - May (same as previous years)
    - SOC report available - June
    - CAFR issued - June (same as previous years)
    - Schedule of Changes in FNP by City – June (in the CAFR)
    - GASB 68 reporting package (from GRS) - July
- Central Communication Point
  - TMRS Web-site [http://www.tmr.com/eye\\_on\\_GASB.php](http://www.tmr.com/eye_on_GASB.php)
  - TMRS City Portal [http://www.tmr.com/city\\_portal.php](http://www.tmr.com/city_portal.php)
  - Phone inquiry (with 850+ member cities - must be minimized)
  - Email questions to [pensionaccounting@TMRS.com](mailto:pensionaccounting@TMRS.com)

# Responsibilities – TMRS' Auditor

- Audit of the financial statements with related audit opinion
- Audit on the Schedule of Changes in Fiduciary Net Position by employer and opinion on the “schedule as a whole”
- SOC 1 Type 2 Report



*cutting through complexity™*

# Service Organization Control (SOC 1) Report on the Suitability of the Design and Operating Effectiveness of Controls

April 14, 2015



# Agenda

1. Schedule of Changes in Fiduciary Net Position by Employer
2. Purpose and Benefit of SOC 1 Report for the Agent Multiple Employer Plans
3. Primary Control Objectives in TMRS SOC 1 Report
4. Complementary User Entity Controls in TMRS SOC 1 Report and Responsibilities of Participating Employers

# Schedule of Changes in Fiduciary Net Position by Employer

1. Current RSI actuarial information in the financial statement section will be removed.
2. New supplemental information schedule (SI) showing each employer's GAAP basis (not funding basis) share of total fiduciary net position – *Schedule of Changes in Fiduciary Net Position by Employer*.
3. Plan auditor is engaged to provide opinion on schedule as a whole combined with SOC 1 (type 2) report and will cover controls over the calculation and allocation of additions and deductions to employer accounts.

# Purpose and Benefit of SOC 1 Report for the Agent Multiple Employer Plans

What is the purpose of a SOC 1 (type 2) Report from plan auditor?

1. Provides an opinion on the Suitability of the Design and Operating Effectiveness of Controls at the service organization (i.e. TMRS).
2. Provides a description of the service organization's responsibilities, the system in place, and the control objectives with related controls tested.
3. Provides a listing of complementary user entity controls that should be in place at each user entity (i.e. employer) relying on the service organization's information.

# Purpose and Benefit of SOC 1 Report for the Agent Multiple Employer Plans

What benefit does the SOC 1 Report provide in relation to the new pension standards?

1. Provides evidence that the TMRS' internal controls over the completeness and accuracy of census data maintained by TMRS are suitably designed and operating effectively.
2. Provides evidence that TMRS' internal controls over the calculation and allocation of additions and deductions to employer accounts and deductions (that is, benefit payments, refunds, and administrative expenses) to employer accounts are suitably designed and operating effectively.

# TMRS Control Objectives in SOC 1 Report

## Census Reports

Controls provide reasonable assurance that reporting of participant census data to the plan's outside actuary is complete and accurate.

## Contributions

Controls provide reasonable assurance that contributions received from employers are completely and accurately posted to the employee and employer accounts in the proper period.

## Income Allocation

Controls provide reasonable assurance that income allocations are completely and accurately posted to the employer accounts based on amounts approved by the Board.

# TMRS Control Objectives in SOC 1 Report

## Fund Balances

Controls provide reasonable assurance that fund balances are reconciled and reported accurately and completely.

## Distributions

Controls provide reasonable assurance that distributions (i.e. disability, partial lump-sum, refunds, and service retirements) are authorized and processed accurately, completely, and in a timely manner in accordance with employer plan provisions.

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# TMRS Control Objectives in SOC 1 Report

## System Maintenance

Controls provide reasonable assurance that modifications to existing system software are authorized, tested, approved, properly implemented and documented.

## Applications Maintenance

Controls provide reasonable assurance that modifications to applications are authorized, tested, approved, properly implemented and documented.

## Logical Access

Controls provide reasonable assurance that logical access to programs and data is granted to appropriately authorized individuals.

# TMRS Control Objectives in SOC 1 Report

## Backups

Controls provide reasonable assurance that data and systems are backed up on a scheduled basis and stored in an offsite location.

## Physical Access

Controls provide reasonable assurance that physical access to computer equipment, storage media, and plan documentation is restricted to appropriate individuals.



# Complementary User Entity Controls

1. Many aspects of the pension process at the service organization are dependent on the processes that occur at each employer (user entity).
2. The Complementary User Entity Controls listed in the SOC 1 Report are internal control responsibilities that the service organization believes should be present at each participating employer.
3. Each employer must evaluate its own internal controls to determine if the controls listed are in place and operating effectively.

# Complementary User Entity Controls – Example Controls

1. Controls should be established to ensure municipal representatives (city correspondents) are authorized to create TMRS-16 forms for new member enrollment data.
2. Controls should be established to ensure municipal representatives are responsible for determining if workers are “employees” under the TMRS Act and for providing employee eligibility data to TMRS.
3. Controls should be established to ensure municipal representatives are responsible for maintaining plan documents.

# Complementary User Entity Controls – Example Controls

1. Controls should be established to ensure municipal representatives are responsible for ensuring all plan amendments (i.e., ordinances) are forwarded to TMRS in a timely manner.
2. Controls should be established to ensure municipal representatives are responsible for providing TMRS with information that is accurate, complete, properly authorized (if applicable), and in accordance with plan guidelines.
3. Controls should be established to ensure payroll amounts included in the TMRS-3 forms submitted to TMRS are complete and accurate.

# Complementary User Entity Controls – Example Controls

1. Controls should be established to ensure only appropriate municipal representatives are authorized to certify the Summary of Monthly Payroll Report (TMRS-3).
2. Controls should be established to ensure that municipal representatives are responsible for the timely remittance of contributions to TMRS (by the 15th of the month).
3. Controls should be established to ensure municipal representatives are responsible for providing TMRS updated personnel and payroll files as needed for the operation and maintenance of the plan.

# Complementary User Entity Controls – Example Controls

1. Controls should be established to ensure municipal representatives are responsible for notifying TMRS of any manual adjustments needed to the payroll files/TMRS-3 Form.
2. Controls should be established to ensure only appropriate municipal representatives are authorized to certify the Application for Occupational Disability Retirement form (TMRS-15/O).
3. Controls should be established to ensure only appropriate municipal representatives are authorized to certify the Application for Retirement form (TMRS-15).

# Complementary User Entity Controls – Example Controls

1. Controls should be established to ensure only appropriate municipal representatives are authorized to certify the Refund Application (TMRS-5).
2. Controls should be established to ensure access to PCs/terminals (containing payroll and TMRS-related information) is limited to authorized and appropriate individuals.

# In Conclusion

- Become familiar with the Eye on GASB page
- Get set up on the TMRS City portal if you have not already done so.
- Begin discussions with your auditor now!
  - Have you reviewed your controls as discussed in the TMRS SOC letter?
  - Is the auditor planning any special procedures including use of their own actuary?
  - If your government adopts ad hoc benefits, is your auditor happy with TMRS' definition of substantively automatic?

# Questions