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YOUR ROADMAP TO GASB STATEMENT NO. 68 IMPLEMENTATION



- Overview of GASB 68
- Calculation of NPL and Pension Expense
- What You Can Expect from TMRS
- Service Organization Control I Type 2 Report – 14 Complementary User Entity Controls
- Census Data
- Items Your Auditor May Request
- Resources



- GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* replaces GASB Statement No. 27.
- Effective for all fiscal years ending after June 15, 2015.
- Employers will be required to recognize a liability as employees earn their pension benefits. To the extent that the employer's long term obligation exceeds the value of the assets in the plan available to pay benefits, there is a Net Pension Liability (NPL) reported on the Statement of Net Position.
- Changes in the NPL will be recognized immediately as pension expense or reported as deferred outflows or deferred inflows, depending on the nature of the change.
- **Your City's external auditor has the ultimate responsibility for expressing an opinion on the NPL of your City.**



- Pension Liabilities

- The City and its auditor must obtain sufficient appropriate evidence regarding the city's specific total pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. The AICPA SLGEP recommended a best practice solution to meet this requirement includes the following:
 - The plan actuary (for TMRS, this is GRS) issues a separate actuarial valuation report specific to each employer, which includes an actuarial certification letter addressed to employer/city management; **and**
 - The plan (TMRS) engages its auditor (KPMG) to issue a service organization controls 1 (SOC 1) Type 2 report on controls over census data maintained by the plan.
- The actuarial valuation report and certification letter specific to each employer will be contained in the GASB 68 Employer Reporting Package, available on the TMRS website in late July.



- Pension Assets

- The City and its auditor must become comfortable with the City's fiduciary net position (FNP), the City's "asset-side" of the net pension liability. To meet this requirement, the AICPA SLGEP recommended a best practice solution, includes the following:
 - The plan (TMRS) prepares a schedule of changes in fiduciary net position, by employer; **and**
 - The plan (TMRS) engages its auditor (KPMG) to issue an opinion on the schedule, as a whole, combined with a SOC 1 Type 2 report, on the controls over the calculation and allocation of additions and deductions to employer accounts.
- TMRS will prepare the Schedule of Fiduciary Net Position, by City, and include it in the TMRS CAFR, available on the TMRS website in late June.

CALCULATION OF NPL AND PENSION EXPENSE



- Example from GASB 68 Pension Accounting Session at GFOAT Spring Institute 2015

Pension Data - Obtain from TRMS

Net Pension Liability as of 12/31/13	5,000,000
Net Pension Liability as of 12/31/14	6,000,000
Actuarial gains (losses) for period 12/31/14	600,000
Investment earnings over expectations as of 12/31/14	1,000,000
City Contributions for FYE 9/30/15	4,400,000
City Contributions made from 1/1/14 to 9/30/14	3,000,000
City Contributions made from 1/1/15 to 9/30/15	3,300,000
Net Pension Obligation at 9/30/14	2,500,000

CALCULATION OF NPL AND PENSION EXPENSE



- Example from GASB 68 Pension Accounting Session at GFOAT Spring Institute 2015

Prior Period Adjustments

To record the beginning NPL as an adjustment to prior periods:

Net Position (Unrestricted)	5,000,000	
Net Pension Liability		(5,000,000)

To record beginning deferred outflow of resources for contributions made after the Measurement Date:

Deferred Outflow of Resources - Contributions	3,000,000	
Net Position (Unrestricted)		(3,000,000)

To eliminate the GASB 27 NPO now superseded by GASB 68:

Net Pension Obligation	2,500,000	
Net Position (Unrestricted)		(2,500,000)

CALCULATION OF NPL AND PENSION EXPENSE



- Example from GASB 68 Pension Accounting Session at GFOAT Spring Institute 2015

Recalculation of Pension Expense

Change in Net Pension Liability	1,000,000
Deferral of 2015 actuarial losses	(500,000)
Deferral of 2015 earnings over expectation	800,000
Flow through of 2014 contributions after Measurement Date	3,000,000
Deferral of 2015 contributions after Measurement Date	(3,300,000)
Employer Contributions	4,400,000
2015 Pension Expense	5,400,000

Net Pension Liability and Pension Expense - FYE 2015 Entry

To record net pension liability and pension expense

Deferred Outflows of Resources - Contributions	300,000	
Deferred Outflows of Resources - Actuarial Losses	500,000	
Pension Expense	5,400,000	
Net Pension Liability		(1,000,000)
Deferred Inflows of Resources - Excess Earnings		(800,000)
Pension Contributions/Expense		(4,400,000)

WHAT YOU CAN EXPECT FROM TMRS: SOC 1 TYPE 2 REPORT



- TMRS has issued a Service Organization Controls 1 (SOC1) Type 2 Report – provides assurance that TMRS’ controls over census data have been suitably designed and were operating effectively over the period (Jan 1, 2014 – April 15, 2015, which includes the Measurement Date of December 31 and the period during which TRMS allocated investment income and fiduciary net assets by employer)
- SOC1 Type 2 report includes four Control Objectives (CO) and 14 related User Entity (Employer) Controls related to:
 - Census Data
 - Contributions
 - Distributions
 - Logical Access

WHAT YOU CAN EXPECT FROM TMRS: SOC 1 TYPE 2 REPORT



- TMRS provided a memorandum to all participating municipalities emphasizing the importance of the SOC-1 audit and the controls that should be in place at your City. These Complementary User Entity controls are also listed in Section 3 of the SOC-1 audit report.
- TMRS believes that these controls, at a minimum, should be in place at your City. For TMRS to be able to generate complete and accurate information, they need to receive complete and accurate information from your City (i.e., good data in = good data out). Each City and their auditor must evaluate your own controls and determine if the User Entity Controls listed in the report are in place at your City and are operating effectively.
- **Goal of TMRS SOC 1 Type 2 Report is to provide your City's auditor with assurance of the accuracy of the NPL.**

WHAT YOU CAN EXPECT FROM TMRS: CAFR & REPORTING PACKAGE



- Census Data, by employer (released May 2015)
- TMRS CAFR (released June 2015) contains a Schedule of Fiduciary Net Position, by employer
- GASB 68 Reporting Package (to be released July 2015)
 - Contains an actuarial valuation report specific to each employer. This will include an actuarial certification letter

CO 1: Census reporting to the outside actuary is complete & accurate



1. Controls should be established to ensure that Municipal Representatives (MR) are authorized to create TMRS-16 forms for new member enrollment data.

Example control: *Ensure there are appropriate individuals to authorize and certify the new member enrollment forms. In addition, maintain a list of authorized City representatives that is reviewed and approved annually by appropriate management.*

Example audit procedure: *From a listing of new members, selected a sample of new members to verify that the person who submitted form TMRS-16 was authorized to do so.*



2. Controls should be established to ensure that MR are responsible for determining if workers are “employees” under the TMRS Act and for providing employee eligibility data to TMRS.

Example control: *Ensure there is a process in place during the onboarding (new hire) process to determine whether an employee is eligible under the TMRS Act. Compare new hire list to new TMRS additions quarterly to ensure completeness of census data.*

Example audit procedure : *For selected new members, verify “employee” status under the TMRS Act. For selected new hires, verify that “employees” have been provided to TMRS and that data provided matches underlying documentation. Request evidence of quarterly review.*



3. Controls should be established to ensure that MR are responsible for maintaining plan documents.

Example control: *The responsibility for maintenance of plan documents has been assigned to an authorized individual. Assign review of those documents to a second individual to ensure that changes to the plan are maintained.*

Example audit procedure: *Request plan documents of the authorized individual and confirm they are current. Request evidence of review.*



4. Controls should be established to ensure that MR are responsible for ensuring all plan amendments (i.e. ordinances) are forwarded to TMRS in a timely manner.

Example control: *The responsibility for forwarding plan amendments has been assigned to an authorized individual. Assign review of those documents to a second individual to ensure that changes to the plan have been sent timely.*

Example audit procedure: *Request a list of recent plan amendments. Review the date sent for timeliness and sender for appropriate authorization. Request support of municipal review of timeliness. Review City Council minutes for any plan amendments to ensure they are on list of recent amendments.*



5. Controls should be established to ensure that MR are responsible for providing TMRS with information that is accurate, complete, properly authorized (if applicable), and in accordance with plan guidelines.

Example control: *New member data sent to TMRS is reviewed prior to submission. Changes to existing members are reviewed for appropriate support.*

Example audit procedure: *From a selection of new members and changes to existing members, agree data sent to TMRS with underlying payroll data. Request evidence of support of municipal review of data.*



6. Controls should be established to ensure that payroll amounts included in the Summary of Monthly Payroll Report (TMRS – 3) forms are complete and accurate.

Example control: *Establish a review of check figures such as hatch counts and payroll dollars by department to ensure that underlying payroll data agrees with TMRS-3 forms.*

Example audit procedure: *For selected months, compare underlying payroll data to TMRS-3 submission. Request review of check figures as appropriate.*



7. Only appropriate MR are authorized to certify the TMRS – 3 reports

Example control: *The responsibility for certifying TMRS-3 reports has been assigned to an authorized municipal representative.*

Example audit procedure: *For selected TMRS-3 submissions, confirm they were sent by an authorized municipal representative.*



8. MR are responsible for the timely remittance of contributions to TMRS.

Example control: *Reminders to send contributions timely are maintained on an electronic calendar. When a contribution is sent, a confirming email is sent to a reviewer.*

Example audit procedure: *For selected months, confirm that contributions were sent timely and that confirming emails were sent to a reviewer.*



9. MR are responsible for providing TMRS updated personnel and payroll files, including ensuring that deposits correctly correspond with the appropriate Social Security number as needed for the operation and maintenance of the plan.

Example control: *Changes to personnel and payroll data are reviewed monthly. The authorized municipal representative spot checks the TMRS data to the underlying support monthly to ensure that social security numbers are correctly matched.*

Example audit procedure: *For selected months, agree TMRS-3 files to underlying payroll details. Request support of monthly review and spot checking.*



10. MR are responsible for notifying TMRS of any manual adjustments.

Example control: *Manual changes made by a municipal representative are reviewed and approved.*

Example audit procedure: *For selected manual adjustments, agree information sent to TMRS to underlying support. Request approval of manual adjustments.*



11. Appropriate MR are authorized to certify the Application for Occupational Disability Retirement Form (TMRS - 15/O).

Example control: *The responsibility for certifying TMRS-15/O reports has been assigned to an authorized municipal representative.*

Example audit procedure: *For selected TMRS-15/O submissions, confirm they were sent by an authorized municipal representative.*



12. Appropriate MR are authorized to certify the Application for Retirement Form (TMRS - 15).

Example control: *The responsibility for certifying TMRS-15 reports has been assigned to an authorized municipal representative.*

Example audit procedure: *For selected TMRS-15 submissions, confirm they were sent by an authorized municipal representative.*



13. Appropriate MR are authorized to certify the Refund Application (TMRS - 5).

Example control: *The responsibility for certifying TMRS-5 reports has been assigned to an authorized municipal representative.*

Example audit procedure: *For selected TMRS-5 submissions, confirm they were sent by an authorized municipal representative*



14. Access to PC / terminals (containing payroll and TMRS-related information) is limited to authorized and appropriate individuals.

Example control: Only authorized users are permitted access to TMRS data

Example audit procedure: For selected users, confirm that TMRS-related information is not available to unauthorized or inappropriate individuals



PROCEDURES YOUR AUDITOR MAY PERFORM TO TEST ACCURACY & COMPLETENESS

- Obtain the census data file sent to the actuary
- Compare the file to the summarized amounts in the actuarial valuation report
- Obtain a roll forward of census data from December 2013 to December 2014 and review a reconciliation of any differences



- Compare the number of members for the current year vs the prior year and the number of members versus the number of employees
- Sample new members, active members, and members with status changes and agree the census data to the underlying records (such as name, wages, date of hire, etc.)
- Sample new hires and confirm they were properly included or excluded from census data

ITEMS YOUR AUDITOR MAY REQUEST



Provided by
Employer

Process memos and plan documents

List of authorized municipal representatives

Census data such as new hires, new members, status changes, etc.

Underlying payroll data support for selected transactions



- Hot Topics Page: Public Sector Pension Plans & Other Postemployment Benefits
- <http://www.bkd.com/hot-topics/public-sector-pension-opebs.htm>

The screenshot shows the BKD website's 'Hot Topics' page. The navigation bar at the top includes 'ABOUT US', 'LOCATIONS', 'CAREERS', 'CONTACT US', 'CLIENT LOGIN', and 'DIRECTORY'. Below this is a secondary navigation bar with 'experience BKD CPAs & Advisors', 'HOME', 'SERVICES', 'INDUSTRIES', 'THOUGHTWARE', 'CLIENT SUCCESS', and a search bar. The main content area features a sidebar on the left with a 'Hot Topics' menu where 'Public Sector Pension Plans & Other Postemployment Benefits (OPEBs)' is highlighted. The main article title is 'Public Sector Pension Plans & Other Postemployment Benefits (OPEBs)', accompanied by a photo of a tree-lined path and social media icons. The article text discusses 'Employer & Plan Pension Plan Accounting & Financial Reporting' in light of GASB Statements No. 67 and No. 68, issued in mid-2012. A 'Related Links' section at the bottom of the sidebar points to 'GASB Statement No. 67'.



- Eye on GASB Page: A continuing series about GASB pension reporting proposals
- http://www.tMrs.org/eye_on_GASB.php

Q&A for Cities on GASB 68

Here are some common questions and answers that may be useful as TMRS cities prepare for financial reporting under GASB Statement No. 68 (*Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No 27*).





- Governmental Accounting Standards Board: Guide to Implementation of GASB 68
- http://www.gasb.org/jsp/GASB/Document_C/GASBDocumentPage?cid=1176163784087&acceptedDisclaimer=true

IMPLEMENTATION GUIDE

Guide to Implementation of
GASB Statement 68 on
Accounting and Financial
Reporting for Pensions

THANK YOU



For more information contact:

David Coleman, CPA, Partner
dcoleman@bkd.com

Karen Kurtin, CFE, CPA, Manager
kkurtin@bkd.com

Rachel Ormsby, CPA, Senior Associate II
rormsby@bkd.com

972.702.8262