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DEPARTMENT OF AUDIT
DIVISION OF LOCAL GOVERNMENT AUDIT

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MEMORANDUM

TO: CPA Firms

FROM: Jerry E. Durham, CPA, CGFM, CFE
Assistant Director
Division of Local Government Audit

SUBJECT: Pension Audit Update

This memo is intended to provide information and instructions you should find useful when auditing pension information at the employer level under GASB 68 and GASB 71. I have waited to provide this information because much of the required data from TCRS was not available until now.

1. Currently there are two update memos on Local Government's Website at www.comptroller.tn.gov/la/Pensions.asp. One was sent on December 16, 2014 and the second on June 9, 2015. This memo is the third in a series. CPA Firms are encouraged to reread the first two memos in planning to implement pension audit procedures.
2. Most of the necessary Actuary/TCRS information is available on the TCRS website www.treasury.state.tn.us/tcrs under the description "FY 15 GASB Information" at the top of the page. When this site is opened, there are two tabs available. One for the Teacher Cost-Sharing Plan and one for the Political Subdivision Agency Plans.
3. The information is provided in large PDF files that are searchable by using the entity name or TCRS account number. Because the PDF files are so large, you may find it takes "minutes" rather than "seconds" to perform the search. Auditors should be careful to include all relevant account numbers/entities in their search. A government entity may have several different account numbers.
4. The necessary Actuary/TCRS information is currently available for almost all entities. I have **attached a separate schedule from TCRS for those entities that may still be lacking the necessary information.** In addition, we have discovered a few entities that are not included on the list. If you have questions about missing entities you should contact TCRS directly. The best contacts for this purpose at TCRS are Jamie Wayman, Jamie.Wayman@tn.gov and 615.253.3847 or Ashley Humphrey, Ashley.Humphrey@tn.gov and 615.532.8091. **The Division of Local Government**

Audit did not provide the information and in most cases does not have answers about missing entities.

5. The Actuary/TCRS information should include the following:
 - a. Actuary Certification Letter
 - b. Actuarial Report
 - c. Journal Entries for recording Net Pension Asset/Liability, Deferrals, and Pension Income/Expense.
 - d. Notes to Financial Statements
 - e. RSI and Notes to RSI

Note: The “Actuary Certification Letter and Actuarial Report” and the “Notes to the Financial Statements and RSI/Notes to RSI” are combined in the documentation provided by the Actuary/TCRS.

6. I would encourage Auditors to include the above information in their audit documentation and to internally reference these documents to financial reports.
7. The information to be provided by the Comptroller of the Treasury, **Division of State Audit (i.e. the Plan Auditor) is not available yet.** The information, which should be ready in the near future, includes:
 - a. Workpapers related to the work of a specialist for TCRS’s Actuary.
 - b. Examination Engagement for Inactive and Retiree Census Data (i.e. Census data maintained by the Plan).
 - c. Opinion on the Schedule of Changes in Fiduciary Net Position by Employer for Agent Employers.
 - d. Opinion on Schedule of Employer Allocations for Cost-Sharing Employers.
 - e. Opinion of Schedule of Pension Amounts for Cost-Sharing Employers.

The information from the **Division of State Audit** will be posted to the Division of Local Government Audit’s website www.comptroller.tn.gov/la/Pensions.asp .

8. While the above information is not yet available, no matters have surfaced that would indicate specific problems with the overall conclusions about these matters. This knowledge may allow you to proceed with financial statement preparation if you are at that stage of completion. **However**, your workpapers should **not** be considered complete unless the above information has been considered and related to the employer financial statement opinions. I would encourage Auditors to include the above information in their audit documentation and to internally reference these documents to financial reports. The information provided by the Actuary in the Actuarial Report should be traced to the Notes, Journal Entries, and RSI provided by TCRS. It would be very easy for TCRS to have made errors when transferring information from the Actuarial Report to the Notes, Journal Entries, and RSI. Each government covered under an agent plan will have its own unique Actuarial Report for each separate plan. Governments covered under the Cost-Sharing plans will only have one Actuarial Report.
9. I am in the process of writing the memo mentioned in Step 4 of the December 16, 2014 memo that deals with employer responsibilities. The template memo should be posted on Local Government Audit’s website next week.
10. Some interesting information has surfaced from the final Actuarial Reports. Several governments will have a net pension **asset** rather than a net pension **liability**. Also, several governments will have **pension income** rather than **pension expense**. This was not anticipated. “Pension Income” should be reported with other types of income (i.e. it should not be presented as a Special Item or a negative expense, etc.). **TCRS has**

advised that governments with pension income this year should expect a pension expense next fiscal year. You may want to inform your clients of this probability.

11. New account numbers may need to be created for reporting pension information. For example, net pension asset, pension income, and the different types of deferral accounts may be needed. (Also refer to number 14 below).
12. TCRS has grouped individual plans for each government differently in many cases. For example, one plan, let's say plan 80777, may include, employees of a discretely presented component unit, nonprofessional employees of the School Department, employees of an enterprise fund, and employees of the general government. Therefore, TCRS would report combined Census Data for all the employees under plan 80777. This creates various allocation and census data testing problems for Auditors. If different Auditors are performing the audits of the primary government and the component unit included in plan 80777, they will need to communicate about the allocations similar to the methods described for Counties in Number 13 below.
13. **IMPORTANT NOTE:** In a situation such as described in **Number 12** above, the Division of Local Government Audit will provide CPA Firms that audit stand-alone financial statements of Component Units or Enterprise Funds (e.g. Utilities) related to **County Governments** with an allocation of Net Pension Asset/Liability, Deferrals, and Pension Income/Expense. This way our numbers will agree between the Primary Government, Enterprise Funds, and Component Units. Obviously, this only applies to the 89 counties that are audited by the Division of Local Government Audit. If you are involved with an entity that meets the criteria in **Number 12** above, and you are preparing stand-alone financial statements for a Component Unit or Enterprise Fund of a **County Government**, please contact the Division of Local Government Audit so we can forward the necessary allocations. Unfortunately, there may be a situation, whereby the Division of Local Government Audit is not aware of an entity that is included in with census data of the general government. This would skew the allocations. We will deal with those situations if and when they occur.
14. The RSI ten year tables use the terminology "**Covered-Employee Payroll**". This does not mean the same as "Pensionable Payroll". See GASB's *Guide to Implementation of GASB Statement 68 on Accounting and Financial Reporting for Pensions*, **Question 106**.
15. When testing census data, I would encourage CPA Firms to select the Accuracy Sample, and then provide the sample to the government. Ask the government to provide the required Census Data for each employee in the Accuracy Sample. This will save Auditors considerable time. Remember, we are testing data from July 1, 2013 through June 30, 2014. In addition, only salaries for that one year and service credits for that one year are required to be examined.
16. Auditors will need to obtain the amount of contributions made between the measurement date of June 30, 2014 and the report date of June 30, 2015. These contributions will more than likely be presented in one account even though the contributions may apply to more than one type of pension plan. For example, contributions at a Local Education Agency (LEA) may include contributions for the non-professional employees (Agent Plan) and the professional employees (Teachers – Cost-Sharing Plan). The different types of contributions should be segregated by plan for reporting purposes. We recommend asking the employer to provide the segregated amounts. Going forward, it would probably be good for employers to have different contribution accounts for each plan. Because of the way the Concord System determines contributions, these are not easy numbers to come by.

17. Employers will need to decide whether or not pension expense should be booked for each department (Enterprise Funds). In addition, on the Statement of Activities at the government-wide level, pension expense should be allocated between functions using some logical approach. Pension income should “probably” be presented as General Revenue since it does not intuitively fit any other program income column.
18. As of July 1, 2014, TCRS established new pension plans for new hires. These are called the “Hybrid Plans”. The old plans (i.e. Legacy Plans) continue for employees hired before July 1, 2014. Since the measurement date is June 30, 2014, the new Hybrid Plans will not have an asset/liability, deferrals, or pension income/expense to record. **However, the new Hybrid Plans will have “Contributions after the Measurement Date”** that will need to be recorded as Deferred Outflows. Unfortunately, this will mean that some governments will have a **separate set of Notes to the Financial Statements for the new Hybrid Plans.**

Note: Local governments have an option as to whether to implement the new Hybrid Plan for Agency Plans. However, all school systems must adopt the new Hybrid Cost-Sharing Plan for new teachers.
19. The Division of Local Government Audit is not aware of any “Special Funding Situations” as defined by GASB 68. However, if a Primary Government is making contributions to TCRS for a Component Unit, the Component Unit likely should record an “On-Behalf Payment” transaction as described in GASB 24.
20. CPA Firms are again encouraged to read GASB 68, paragraph 18, and related Implementation Guide Questions 33, 34, and 35 for Agent Plans. Stand-alone financial statements of a component unit that is included in the primary government’s agent plan, should present Cost-Sharing notes rather than agent notes. This will cause considerable effort for CPA Firms reporting on the stand-alone financial statements of a component unit. If possible, the component unit needs to ask TCRS to set up its own account to avoid this situation in the future.
21. Census data testing workpapers for **Agent Plans** should be maintained by the CPA Firm in its workpapers in support of the Pension Asset/Liability, Deferrals, and Pension Income/Expense. ***However, the Census Data testing workpapers for the Cost-Sharing Plans should be forwarded to the Division of Local Government Audit in support of the Division of State Audit’s Opinion on the overall Cost-Sharing plan. The Division of Local Government Audit will collect these workpapers; form an overall purpose, source, and conclusion; and provide this information to the Division of State Audit.***
22. It is my understanding that the State and Local Government Expert Panel that prepared the AICPA Whitepapers is preparing an Audit Alert related to the Cost-Sharing Plans. This may affect our audits. Please be watching for this Audit Alert.
23. I have been difficult to reach this summer and several of you may have tried to contact me. I have attempted to answer some of your questions in this memo. I have been out of state performing training or at various meetings. The best way to contact me about pension questions is by telephone. Please keep trying if I am not in. You may also contact Rachelle Cabading if I am not in. Feel free to contact us by email as well, but realize it takes a long time to communicate about pension questions by email because of the complexity of the subject matter.

Thanks to each CPA Firm for your continuing cooperation as we deal with this difficult implementation process. A new implementation issue surfaces almost daily. Our contact information is as follows:

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