

# Pension ALERT!

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## **In a Nutshell**

Cities should have pension census data and payroll and personnel records for the 2013-2014 fiscal year-end available for audit. Local governments with unfunded or underfunded pension liabilities may see a significant liability in the financial statements and in some cases this will cause a deficit net position.

New governmental reporting standards require governments to measure and record their net pension liability. The new requirement affects defined benefit Multiple Employer Cost-Sharing and Multiple-Employer Agent Plans. All schools participate in Cost-Sharing Plans. All other municipal entities participate in Agent Plans. Cities that participate in TCRS can expect the following chain of events. CPA firms that audit cities have received word from the Comptroller's Office; Division of Local Government Audit (LGA) that pension census data for active TCRS employees must be audited by the external auditors. This will include all employer/cities in the State of Tennessee. This data has most likely never been audited since the net pension liability was previously not a part of the basic financial statements, but was presented as unaudited information.

## **What to expect if your city is a member of TCRS?**

In a letter issued to independent auditors on December 16, 2014, the Comptroller of the Treasury, Division of Local Government Audit set out a 5 step audit plan. In April of 2015, LGA sent another memo to all City Mayors and Finance Directors that included the December 16, 2014 memo. The following instructions should be read in conjunction with the December 16, 2014 memo.

The Employer/City responsibilities (noted below) apply to **all** employers/cities participating in the TCRS agent multiple-employer plan, not the TCRS cost-sharing plan.

Step 1: Any employer/city which is a member of TCRS in the agent-multiple employer plan will receive all the necessary reports regarding each employer/city's pension data from TCRS and its Actuary. Allocations within the city may have to be made.

Step 2: Cities are responsible for recording appropriate journal entries based on this information and for calculating and recording any necessary allocations to Enterprise Funds or Component Units...

Step 3: Testing of Census Data – Auditors must confirm accuracy and completeness of pension data. Cities must provide adequate documentation for the accuracy test including Name, Social Security Number, Date of Birth, Salary reported for the 2013-2014 fiscal year, Service Credit Reported, Retirement Code, Department Code, and whether member is male or female. For the completeness test, each employer/city must provide payroll records for the period of July 1, 2013 – June 30, 2014 which will be compared to the reports provided by TCRS or to Concord data.

Step 4: LGA will issue a memo to demonstrate that the actuarial information received from TCRS's Actuary is relevant to the City.

Step 5: Relates to changes in the fiduciary net position. This will be audited by the Division of State Audit as part of the annual audit of TCRS.

### **All Cities**

It is important that all cities have the 2013-2014 pension and payroll data available for the audit and to perform the calculations noted above that apply. Ultimately cities that have not adequately funded pension plans may have significant liabilities to record as a restatement of beginning net position. This could result in negative Net Position. The journal entries provided by TCRS effect the enterprise funds and the governmental activities in the government-wide financial statements. If cities have been making contributions on behalf of a component unit (for example, an industrial development board) additional allocations of the provided journal entries will be necessary.

### **Employer/City Responsibilities**

Amounts reported in the employer financial statements are the sole responsibility of the employer and they are responsible for evaluating the data used for the pension amounts. The employer is responsible for verifying and recalculating amounts specific to the employer, recalculate certain allocation percentages, and recalculate allocated pension amounts based on the percentage used.

*Resources:*

AICPA White paper link

[http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/gasbmatters/DownloadableDocuments/AICPASLGEP\\_CS\\_ER\\_Reporting\\_Whitepaper.pdf](http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/gasbmatters/DownloadableDocuments/AICPASLGEP_CS_ER_Reporting_Whitepaper.pdf)

Comptroller of the Treasury:

Division of Local Government Audit <http://www.comptroller.tn.gov/>

Governmental Accounting Standards Board (GASB)

*GASB Statement No. 67, Financial Reporting for Pension Plans*

*GASB Statement No. 68, Accounting and Financial Reporting for Pension Plans*

*GASB Statement No. 71, Pension Transition for Contributions made Subsequent to the Measurement Date.*