



THE RETIREMENT SYSTEMS OF ALABAMA

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ERS Participating Employers:

The Governmental Accounting Standards Board (GASB) has issued four statements related to pensions (i.e. GASB Statements 67, 68, 71 and 82). GASB Statement 68, “*Accounting and Financial Reporting for Pensions*” and GASB Statement 71 “*Pension Transition for Contributions Made Subsequent to the Measurement Date*” are effective for employers with fiscal years ending June 30, 2015 and after. These standards affect reporting for all employers participating in the Employees’ Retirement System of Alabama (ERS) agent-multiple pension plan. The September 30, 2018 (reporting date) employer’s net pension liability calculation has been determined based upon the September 30, 2016 ERS actuarial valuation rolled forward to September 30, 2017 (measurement date) using standard roll-forward techniques.

Also, we wish to direct you to GASB 82 which amends GASB 68. Prior to the issuance of GASB 82, GASB 68 required the presentation of covered-employee payroll. Statement 82 instead requires the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

The audit plan outlined below is based on the guidance from Chapter 13 Defined Benefit Pension Plans (Plan and Employer Considerations) from the AICPA Audit Guide of State and Local Governments (the Guide). This memo assumes that each CPA firm has read and is knowledgeable of the Guide.

The reporting requirements for the plan vs. the employer are significant with respect to the total pension liability, deferred outflows of resources, and deferred inflows of resources, pension expense, and the employer’s specific interest in the plan’s fiduciary net position. The Guide points out that:

- a.) The financial statements of agent plans do not include the specific pension amounts required to be reported by participating employers and these employers do not have direct access to the underlying plan records and data supporting such amounts; and
- b.) The plan financial statements do not disclose actuarial information for each individual employer or the plan as a whole.

The Guide has recommended certain best practice solutions for plans and their auditors to assist employers and their auditors in overcoming the above challenges.

The first best practice solution relates to the total pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. The Guide has recommended the following:

- The plan actuary issue a separate actuarial valuation report specific to each employer which includes an actuarial certification letter addressed to employer management; and
- The plan engage its auditor to issue either:
 - o Option 1: A service organization controls 1 (SOC 1) Type 2 report on controls over census data maintained by the plan, or
 - o Option 2: An examination engagement over selected management’s assertions related to census data maintained by the plan.

The Employees' Retirement System (ERS) has addressed this best practice by instructing our actuary to issue a separate actuarial valuation report specific to each of our participating employers. This actuarial certification letter will be addressed to employer management and is appended to each respective employer's GASB 68 Statement.

The ERS engaged an independent firm to provide a SOC 1 Type 2 report on the controls over census data maintained by us (Option 1, above). Total pension liability and contributions revenue and receivable are dependent on the completeness and accuracy of census data. As such, processes and controls over census data for active employees, inactive employees and retirees are critical. The ERS has designed and maintains a strong process of internal controls over the census data of our members. The SOC 1 Type 2 report states that our controls were operating effectively. This report, for the period October 1, 2016 – September 30, 2017, can be found at www.rsa-al.gov. RSA's auditors obtained an understanding of the processes and controls we have in place over census data as part of the risk assessment they used in their audit.

In addition, the ERS benefits provides its employers with:

- Annual Checklist which details members from which contributions were received during the fiscal year.
- Statement Listing of active and inactive members during the fiscal year.

These reports will serve as a verification of the completeness and accuracy of active census data on record with the ERS and serves as a means by which employers and their auditors can verify this information. Please request these reports from ersinfo@rsa-al.gov.

The second best practice solution relates to the challenges faced by employers in determining their specific fiduciary net position amounts. The Guide has recommended the following:

- The plan prepare a schedule of changes in fiduciary net position by employer and related notes to the schedule; and
- The plan engage its auditor to opine on the schedule of fiduciary net position by employer either through:
 - o Option 1: 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, or
 - o Option 2: An opinion on each employer column or row in the schedule.

The ERS has addressed this best practice by preparing the schedule of changes in fiduciary net position by employer and related notes described above, and obtaining 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 (Option 1). The audited schedule is available on our website, www.rsa-al.gov.

Included in this packet is the following report which was prepared in order to assist the Plan's participating employers in reporting related to GASB 68, 71 and 82. All other information provided by RSA related to GASB 68, 71 and 82 is located on our website, www.rsa-al.gov. This report also illustrates that the ultimate responsibility of any unfunded liability is the participating employer and not the Plan:

- Employer specific valuation information including actuarial certification letter and journal entries prepared by Cavanaugh Macdonald Consulting, LLC

We hope that this information helps you to record GASB 68, 71 and 82. Please provide all of this information to your auditors as they will also need it during their audit work.

Sincerely,



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Chief Financial Officer
Retirement Systems of Alabama