What Do You Need to Know About the Upcoming GASB Changes?

In June 2012, the Governmental Accounting Standards Board (GASB) made major changes to its pension accounting standards; these changes **require a pension liability to be reported** on the face of the employer’s financial statements.

- **GASB Statement No. 67 (GASB 67), Financial Reporting for Pension Plans — an amendment to Statement 25** applies only to TMRS as a Plan; effective for fiscal years beginning after June 2013. TMRS will apply this standard with our December 31, 2014 CAFR; no material impact to TMRS cities.

- **GASB Statement No. 68 (GASB 68), Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27** applies to the individual employers (TMRS cities) under a Plan; effective for fiscal years beginning after June, 2014. **GASB 68 SIGNIFICANTLY changes what cities must report in their financial statements and pension disclosures.** The first TMRS cities required to comply with this standard will be those with fiscal years ending June 30, 2015.

**Issues for Finance Officers**

- Whether your city is big or small, the Finance Officer should work with auditors who are familiar with the new standards.

- A major change that will need to be explained to elected officials and other financial statement users involves the Net Pension Liability (NPL). The NPL is a new number reported on the balance sheet in the employer’s financial statements and will likely reflect a larger pension liability than shown in past years.

- Accounting and funding are disconnected under GASB 68. TMRS contribution requirements (“funding”) will not change. Every city will still be required to pay the actuarially determined rate to fund its TMRS plan.

- The new standard requires the use of Entry Age Normal (EAN) for reporting purposes. TMRS will be using EAN beginning with the 12/31/2013 actuarial valuation for both funding and financial reporting purposes.

- TMRS will be providing cities with a SOC-1 audit report, which documents controls in place at TMRS; the report will also contain an audit opinion as to whether the controls were operating effectively for the audit period. This report will be available to your city for reference by your auditors.

- Since Finance Officers work directly with their external auditors, they should ensure that the HR/Payroll personnel (as noted below) are aware of the User Entity Controls that need to be in place, and assist them as needed.

**Issues for Human Resources / Payroll Personnel**

- There are controls that should be in place at your city (termed “User Entity Controls”) to ensure that your city and your external auditor can rely on the results of the SOC-1 audit report. If controls are not in place or are not functioning properly at the city (“input”), the results (“output”) of the SOC-1 report cannot be relied upon by your city/city auditor. The User Entity Controls need to be in place throughout your city’s fiscal year (for GASB 68, those cities with a 6/30/2015 fiscal year-end should have the controls in place no later than 7/01/2014). Information submitted to TMRS, such as participation by eligible employees and covered compensation, must be accurate. **If these controls are not already in place, the city will need to establish them. See the reverse of this sheet for examples of the controls** (from the TMRS March 2014 User Entity Controls Letter).

TMRS will continue to keep cities informed about deadlines for GASB implementation. Stay tuned to the “Eye on GASB” page of the website for updates. Specific questions from Finance personnel and city auditors can be emailed to pensionaccounting@tmrs.com. If you have questions about TMRS policies or administration, contact a member of the Travel Team (communications@tmrs.com), review the TMRS website, particularly the Cities and “How Do I” sections, or call 800-924-8677.
For your city to rely on the conclusions/opinion issued in the final SOC-1 report issued by TMRS’ auditor, your city needs to have these User Entity Controls in place. Note that TMRS, as the plan administrator, has identified the control objectives in place; these will be audited by our external auditor, with an opinion provided in the SOC-1 audit report. The TMRS city’s (i.e. the “user entity” of the SOC-1 report) should have the User Entity Controls in place.

(TMRS) Control Objective 1 – Controls provide reasonable assurance that reporting of participant census to the TMRS outside actuary is complete and accurate.

(TMRS City) User Entity Controls:

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

(TMRS) Control Objective 2 – Controls provide reasonable assurance that contributions received from employers are completely and accurately posted to the employee and employer accounts in the proper period.

(TMRS City) User Entity Controls:

f. Controls should be established to ensure payroll amounts included in the TMRS-3 forms submitted to TMRS are complete and accurate.
g. Controls should be established to ensure only appropriate municipal representatives are authorized to certify the Summary of Monthly Payroll Report (TMRS-3).
h. 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).
i. 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.
j. 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.

(TMRS) Control Objective 3 – Controls provide reasonable assurance that distributions (i.e., partial lump sum distributions, refunds, and service retirements) are authorized and processed accurately, completely, and in a timely manner in accordance with employer plan provisions.

(TMRS City) User Entity Controls:

k. Controls should be established to ensure that only appropriate municipal representatives are authorized to certify the Application for Occupational Disability Retirement form (TMRS-150).
l. Controls should be established to ensure that only appropriate municipal representatives are authorized to certify the Application for Retirement form (TMRS-15).
m. Controls should be established to ensure that only appropriate municipal representatives are authorized to certify the Refund Application (TMRS-5).

(TMRS) Control Objective 4 – Controls provide reasonable assurance that logical access to programs and data is granted to appropriately authorized individuals.

(TMRS City) User Entity Controls:

n. Controls should be established to ensure access to PCs/terminals (containing payroll and TMRS-related information) is limited to authorized and appropriate individuals.