State of Washington
Decision Package

FINAL

Agency: **124 Department of Retirement Systems**

Decision Package Code/Title: **AB GASB 68 Compliance**

Budget Period: **2013-15**

Budget Level: **PL - Performance Level**

Recommendation Summary Text:

Member data needs to be audited at employer locations in order for the financial statements prepared by DRS and other public employers to comply with standards issued by the Governmental Accounting Standards Board (GASB) and audit recommendations from the American Institute of Certified Public Accountants (AICPA). GASB statements 67 and 68 will require employers participating in the state's retirement systems to recognize their proportionate share of the net pension liability. This decision package increases DRS' appropriation authority to cover the cost of the audit requirements that start with FY 2015 data.

Fiscal Detail

Operating Expenditures	FY 2014	FY 2015	Total
600-1 Dept of Retirement Systems Expense-State		260,000	260,000
Total Cost		**260,000**	**260,000**

Package Description:

In June 2012, GASB issued two new standards (numbers 67 and 68). Once implemented, employers participating in the retirement systems will be required to recognize their proportionate share of the net pension liability in their financial statements. Currently, employers have no such requirement and only show an expense for contributions made during the year and a liability for amounts currently due but not yet paid.

An essential first step to be able to provide public employers, who have members in the state's public retirement plans, with the information they'll need is auditing their census data. Census data from more than 1,300 employers on over 680,000 members and retirees includes such information as birth date, years of service, compensation and gender. This key information is used by the State Actuary in determining the funding status of the plans.

The AICPA has determined that auditors of our employers preparing financial statements that comply with Generally Accepted Accounting Principles (GAAP) would probably be unable to provide clean audit opinions if the employer's portion of the pension systems net pension liability was material and the pension plan did not have an audit on their allocation schedule.

The work associated with this decision package primarily deals with the requirements of Statement No. 68 which "will take effect for employers and governmental nonemployer contributing entities in fiscal years beginning after June 15, 2014 (that is, for years ended June 30, 2015 or later)." As a result, the work needs to take place in FY 2015 so that the auditors can complete the required audits and issue the opinions needed by the state and participating public employers.

Questions on this proposal should be directed to Cathy Cale, Fiscal Manager, at (360) 664 7305.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

The additional audits do not impact the agency's performance measures.

Performance Measure Detail

Activity:

Incremental Changes

No measures submitted for package

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

Although it does not directly contribute to a current strategy, it does support the agency's key goal to be a "Reliable Partner."

Does this decision package provide essential support to one of the Governor's priorities?

The DP would be related to Goal 5 as it supports transparency and accountability in the financial status of the state's public pension plans.

What are the other important connections or impacts related to this proposal?

The primary benefit is that it enables public employers, participating in the state's retirement systems, to recognize their proportionate share of the net pension liability in their own financial statements (a new financial reporting requirement).

What alternatives were explored by the agency, and why was this alternative chosen?

DRS considered the following alternatives:

1. Enter into a contract with the current CAFR auditor to provide an opinion on the allocation schedules and coordinate with the State Auditor's Office on audits of employer census data.

   This alternative was chosen as the CAFR auditor already understands the internal controls around DRS' collection of member data from employers as well as an understanding of the authoritative criteria for creating and auditing liability allocation schedules. Timing to coordinate the census audits and allocation opinion is tight and entering a full RFP process could jeopardize the ability to have plan information available to employers when they need it.

2. Enter into an agreement with the State Auditor's Office (SAO) to provide an opinion on the state allocation schedules and to audit the employer census data.

   While SAO has initially been agreeable to participate in census audits, they were hesitant to take on a larger role in the process at this time. They were unsure of the availability of staffing resources and felt they might need to redo work already performed by the CAFR auditor to reach the comfort level necessary to issue an opinion. We will revisit this option with SAO in the future.

3. Enter into a contract with the current CAFR auditor to provide the allocation schedule opinion and perform all census data audits.

   Engaging the CAFR auditor to perform all census audits may not only be more expensive, due to the necessity to travel all around the state, but also could create conflict with the retirement systems' employers. All of DRS' employers are already subject to audits by SAO and are comfortable with those auditors, already strategically placed around the state, and would have lesser concerns about sharing confidential payroll and personnel information with SAO.

What are the consequences of not funding this package?

"Doing nothing" essentially represented another alternative but in addition to providing poor support to public employers it could negatively impact CAFR opinions in future years, for DRS and public employers statewide, as their financial reports would be out of compliance with published standards. The integrity and accuracy of these financial reports is an important component of transparency in government.

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

Our current CAFR auditors are estimating that 79 employers would need to be audited per year at an initial cost of $260,000 if they did all the work required to perform an audit on the allocation schedule. The State Auditor's Office has indicated their willingness to perform census data audits at the employer locations at a cost of $89 per hour, plus travel expenses. DRS will pursue the most cost-effective solution, factoring in vendor bids and information from the SAO.

Based on current projections, no additional administrative fee increase is needed. The current fee of 0.18% should provide sufficient revenue.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

The costs are ongoing.

Object Detail		FY 2014	FY 2015	Total
C	Professional Svc Contracts		260,000	260,000