ND STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING

Friday, February 28, 2014 - 1:00 p.m.
Peace Garden Room - State Capitol, Bismarck, ND

AGENDA

1. Call to Order and Approval of Agenda - Chair (committee action)

2. Approval of November 22, 2013 Minutes - Chair (committee action)

3. 2013-14 Audit Activities Progress Report - Dottie Thorsen and Fay Kopp (committee action)

4. GASB #67 and #68 Implementation Planning - Fay Kopp (discussion only)

5. Audit Supervisor Vacancy Update - Fay Kopp (discussion only)

6. RIO Organizational Update - Dave Hunter (discussion only)

7. Other Business
   Next SIB Audit Committee meeting - May 23, 2014

8. Adjournment

Any individual requiring an auxiliary aid or service should contact the Retirement and Investment Office at (701) 328-9885 at least three (3) days prior to the scheduled meeting.

STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
NOVEMBER 22, 2013, MEETING

COMMITTEE MEMBERS PRESENT:	Rebecca Dorwart, Chair Lonny Mertz, Vice Chair Mike Gessner, TFFR Board/Liaison to the SIB Mike Sandal, PERS Board Cindy Ternes, Workforce Safety & Insurance
STAFF PRESENT:	Bonnie Heit, Assistant to the Audit Committee Fay Kopp, Interim Executive Director Shelly Schumacher, Retirement Program Manager Dottie Thorsen, Internal Auditor Susan Walcker, Investment Accountant
OTHERS:	Jason Ostroski, CliftonLarsonAllen

CALL TO ORDER:

Ms. Dorwart called the State Investment Board (SIB) Audit Committee meeting to order at 1:00 p.m., on Friday, November 22, 2013, at the State Capitol, Peace Garden Room, Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

The Audit Committee considered the November 22, 2013, agenda.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE NOVEMBER 22, 2013, MEETING.

AYES: MR. SANDAL, MS. TERNES, MR. MERTZ, MR. GESSNER, AND MS. DORWART
NAYS: NONE
MOTION CARRIED

MINUTES:

The Audit Committee considered the minutes from the September 27, 2013, meeting.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. MERTZ AND CARRIED ON A VOICE VOTE TO ACCEPT THE SEPTEMBER 27, 2013, MINUTES AS WRITTEN.

AYES: MR. GESSNER, MR. SANDAL, MS. TERNES, MR. MERTZ, AND MS. DORWART
NAYS: NONE
MOTION CARRIED

FINANCIAL AUDIT REPORT:

Mr. Jason Ostroski, CliftonLarsonAllen, reviewed the audit results of the Retirement and Investment Office's (RIO) financial statements for the fiscal year ended June 30, 2013. Mr. Ostroski also reported CliftonLarsonAllen has issued an unmodified, clean, opinion.

Mr. Ostroski also reviewed the new accounting statements the Governmental Accounting Standards Board (GASB) recently approved. GASB 67, Financial Reporting for Pension plans, replaces GASB 25. It provides for accounting with respect to the TFFR plan, effective fiscal year July 1, 2013, to June 30, 2014. GASB 68, Accounting and Financial Reporting for Pensions, replaces GASB 27. It provides for the financial reporting by employers/school districts with respect to TFFR, effective fiscal year July 1, 2014, to June 30, 2015.

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. SANDAL AND CARRIED BY A VOICE VOTE TO ACCEPT CLIFTONLARSONALLEN'S AUDIT REPORT OF THE FINANCIAL STATEMENTS FOR THE RETIREMENT AND INVESTMENT OFFICE FOR THE FISCAL YEAR ENDED JUNE 30, 2013.

AYES: MS. TERNES, MR. MERTZ, MR. SANDAL, MR. GESSNER, AND MS. DORWART
NAYS: NONE
MOTION CARRIED

The Audit Committee thanked staff for their hard work and congratulated them for all of their efforts working with CliftonLarsonAllen in putting together an excellent audit report.

AUDIT ACTIVITIES REPORT:

Ms. Kopp and Ms. Thorsen reviewed internal audit activities for the July 1, 2013 – September 30, 2013 period.

With the retirement of the Internal Audit Supervisor, current plans are to complete 24 school district audits and four not in compliance reviews. As of November 15, 2013, eight audits were completed, three audits are in progress, and one not in compliance review is in progress.

The TFFR File Maintenance Audit was completed and changes made to TFFR member account data by RIO employees was tested. No exceptions were noted.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE INTERNAL AUDIT ACTIVITIES REPORT FOR THE PERIOD OF JULY 1, 2013 – SEPTEMBER 30, 2013.

AYES: MR. GESSNER, MR. MERTZ, MR. SANDAL, MS. TERNES, AND MS. DORWART
NAYS: NONE
MOTION CARRIED

RIO STAFF VACANCIES:

Mr. Sandal and Ms. Kopp updated the Audit Committee on RIO staff vacancies.

Mr. David Hunter will begin his duties as Executive Director/Chief Investment Officer on December 2, 2013.

Mr. Cody Schmidt will begin his duties as Compliance Officer on December 9, 2013.

The Fiscal and Investment Officer and Investment Analyst positions will be posted once an organizational review of investment and fiscal division duties are reviewed with the new ED/CIO.

Gary Vetter, Supervisor of Information Services, announced his retirement on November 4, 2013. His last day of employment will be March 31, 2014.

Ms. Kopp will be reviewing and discussing the Supervisor of Internal Audit position with the Audit Committee at their November 22, 2013, meeting.

INTERNAL AUDIT SUPERVISOR POSITION:

Ms. Kopp reviewed with the Audit Committee the following documents as they relate to RIO's Audit Supervisor of Internal Audit position; SIB Governance Policy/Standing Committees/B-6, the Audit Committee charter as it exists today, the current job description, agency organization chart, and office administrative hiring policy. The Audit Committee and Ms. Kopp also discussed the audit functions within the agency and the audit reporting structure.

Ms. Kopp recommended filling the Audit Supervisor position in substantially the same form the format as it exists today. Once the position has been filled, the new Audit Supervisor of Internal Audit, RIO executive management, and the Audit Committee will work together to review the current audit function within the agency, audit reporting structure, and audit programs and procedures in order to identify how to best structure RIO's audit program for the future.

The Audit Committee also discussed having at least one member from the Audit Committee participate in the hiring or selection process. After discussion,

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. MERTZ AND CARRIED BY A VOICE VOTE TO HAVE AT LEAST ONE MEMBER FROM THE AUDIT COMMITTEE ACTIVELY INVOLVED WITH THE ED/CIO OF RIO IN THE HIRING OF THE AUDIT SUPERVISOR OF INTERNAL AUDIT.

AYES: MR. SANDAL, MS. TERNES, MR. MERTZ, MR. GESSNER, AND MS. DORWART
NAYS: NONE
MOTION CARRIED

Ms. Dorwart, Chair, volunteered to be involved in the hiring of the Audit Supervisor position.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. GESSNER AND CARRIED BY A VOICE VOTE TO AUTHORIZE STAFF TO MOVE FORWARD IMMEDIATELY WITH FILLING THE AUDIT SUPERVISOR OF INTERNAL AUDIT POSITION FOR RIO.

AYES: MR. GESSNER, MR. SANDAL, MS. TERNES, MR. MERTZ, AND MS. DORWART
NAYS: NONE
MOTION CARRIED

OTHER:

The next Audit Committee meeting is scheduled for February 28, 2014, at 1:00 p.m. at the State Capitol, Peace Garden Room.

ADJOURNMENT:

With no further business to come before the Audit Committee, Ms. Dorwart adjourned the meeting at 2:52 p.m.

Respectfully Submitted:

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Ms. Rebecca Dorwart, Chair
SIB Audit Committee

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Bonnie Heit
Assistant to the Audit Committee

Agenda Item 3.

MEMORANDUM

TO: **SIB Audit Committee**

FROM: **Fay Kopp, Chief Retirement Officer**

DATE: **February 21, 2014**

SUBJ: **2013-14 Audit Progress Report**

Attached is the Audit Activities Progress Report and Budgeted Hours Report for the 2nd quarter ending December 31, 2013 which Dottie Thorsen will review at the meeting.

As the Audit Committee is aware, we anticipate the 2013-14 annual work plan goals will not be met due to the Audit Supervisor's retirement in July 2013. The Audit Committee decided to not formally revise the audit work plan for the year, but recognizes the impact the vacancy has on the plan.

On a positive note, Dottie is continuing to do a great job keeping up with the audits which were initially assigned to her for the year, plus other administrative audit activities temporarily reassigned to her. I sincerely appreciate her dedicated efforts.

Enclosures

RETIREMENT AND INVESTMENT OFFICE
INTERNAL AUDIT SERVICES UNIT

AUDIT ACTIVITIES REPORT FOR THE SECOND QUARTER
OCTOBER 1, 2013 THROUGH DECEMBER 31, 2013

The audit objective of the Internal Audit Services Unit (Audit Unit) is twofold: first, to provide comprehensive, practical audit coverage of the Retirement and Investment Office (RIO) programs; second, to assist RIO management and the State Investment Board (SIB) by conducting special reviews or audits.

Our audit coverage is based on the Fiscal Year July 1, 2013 through June 30, 2014 Work Plan. The Work Plan is consistent with the Audit Unit charter and goals, and the goals of RIO. To the extent possible, our audits are being carried out in accordance with the International Standards for the Professional Practice of Internal Auditing. Audit effort is being directed to the needs of RIO and the concerns of management and the SIB Audit Committee.

REGULAR AUDIT COVERAGE

Retirement Program

- **School District Reporting**

We are examining school district reporting to the Teachers' Fund for Retirement (TFFR) to determine that retirement salaries reported for members of TFFR are in compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). Other reporting procedures reviewed during the audit process are calculation of service hours and eligibility for TFFR membership. A written report is issued after each audit examination is completed.

The 2013/14 Work Plan includes a goal of 52 school district audits and 7 not in compliance reviews. However, due to the Audit Supervisor's retirement as July 12, 2013, the goal is not expected to be met. We do plan to complete 24 school district audits and 4 not in compliance reviews. As of December 31, 2013, 10 audits were completed and 2 audits were in progress. Information for 6 Districts was on file. The attached report details the current status of these audits. (Note: As of February 21, 2014, 13 audits have been completed, 2 audits are in progress, and 2 not in compliance reviews have been completed.)

This is an area that requires special emphasis due to the level of risk identified through previous audit results. Our long-range plans include auditing each district over a five year period.

- **TFFR File Maintenance**

We periodically test changes made to TFFR member account data by RIO employees. Journals are generated daily and monthly indicating any file maintenance changes made.

No exceptions were noted.

SUMMARY

The 2013/14 Work Plan adjustments were necessary because of the Audit Supervisor's retirement, however, audit effort will continue to be activities that are of greatest concern to the SIB Audit Committee, RIO management, and the external auditors.

North Dakota Retirment and Investment Office
SCHOOL DISTRICT AUDIT PROGRESS AND STATUS REPORT
For the Fiscal Year July 1, 2013 - June 30, 2014

	Auditor	School District	100% or on-site	Info Request	Info Received	Audit Started	Report Date	Status	Members	days b/w info request and received	days b/w info received and report	days b/w info received & start date	days b/w start and report		hours to complete
1	DT	Sheyenne Valley Sp Ed		3/15/2013	4/16/2013	6/10/2013	7/18/2013	Done	27	32	93	55	38	In Compliance	27
2	DT	Jamestown		3/15/2013	4/4/2013	4/12/2013	7/19/2013	Done	225	20	106	8	98	In Compliance	35
3	DT	Surrey		4/16/2013	4/25/2013	6/17/2013	8/5/2013	Done	38	9	102	53	49	In Compliance	39
4	DT	TGU School District		4/16/2013	5/10/2013	6/21/2013	8/22/2013	Done	43	24	104	42	62	In Compliance	47
5	DT	Wishek		4/16/2013	5/21/2013	8/1/2013	9/23/2013	Done	22	35	125	72	53	In Compliance	50
6	DT	Wyndmere		4/16/2013	5/16/2013	7/26/2013	9/30/2013	Done	29	30	137	71	66	In Compliance	30
7	DT	Westhope		4/16/2013	5/16/2013	7/10/2013	10/14/2013	Done	21	30	151	55	96	In Compliance	36
8	DT	Hebron		6/18/2013	7/5/2013	10/1/2013	11/14/2013	Done	28	17	132	88	44	In Compliance	46
9	DT	Turtle Lake - Mercer/ Great Western Network		4/16/2013	5/15/2013	7/5/2013	12/5/2013	Done	53	29	204	51	153	Generally in compliance	139
10	DT	Nedrose		6/18/2013	7/2/2013	9/27/2013	12/9/2013	Done	19	14	160	87	73	In compliance	33
11	DT	GST Educational Services		6/18/2013	7/18/2013	10/9/2013	1/7/2014	Done	30	30	173	83	90	In Compliance	58
12	DT	Midkota		6/18/2013	7/19/2013	11/18/2013	1/16/2014	Done	23	31	181	122	59	In compliance	56
13	DT	Manvel Elementary		6/18/2013	7/19/2013	1/7/2013		In progress	22	31					
14	DT	Midway		6/18/2013	7/19/2013	1/14/2014	2/19/2014	Done	32	31	215	179	36	In compliance	54
15	DT	Maddock		6/18/2013	7/22/2013	2/11/2014		In progress	21	34					
16	DT	Grand Forks		6/18/2013	7/22/2013					34					
17	DT	Minto		6/18/2013	7/22/2013					34					
18	DT	Medina		6/18/2013	7/26/2013					29					
19	DT	Pingree-Buchanan		1/28/2014											
20	DT	West River Student Serv		1/28/2014											
21	DT	Zeeland		1/28/2014											
22	DT	Elgin-New Leipzig		2/18/2014											
23	DT	Flasher		2/18/2014											
24	DT	Devils Lake													
25	DT	Fargo													
26	DT	New Public School													
27	open	Parshall													
28	DT	St. John													
29	open	West Fargo													
30	open	White Shield													
31	DT	Wolford													
32	open	Oliver-Mercer Spec Ed													
33	open	Emerado													
34	DT	Fort Totten													
35	open	Hazelton-Moffit School													
36	open	Kensal													
37	open	Lake Region Spec Ed													
38	open	Nesson													
39	open	South Heart School													
40	DT	Kulm													
41	open	Lewis & Clark School													
42	open	Maple Valley													
43	DT	Mohall/Lansford/Sherwood													
44	open	Montpelier													
45	DT	Warwick													
46	DT	Billings Co. Sch. District													
47	DT	East Central Excp. Child													
48	DT	Edmore													
49	DT	Glen Ullin													

North Dakota Retirement and Investment Office
SCHOOL DISTRICT AUDIT PROGRESS AND STATUS REPORT
For the Fiscal Year July 1, 2013 - June 30, 2014

	Auditor	School District	100% or on-site	Info Request	Info Received	Audit Started	Report Date	Status	Members	days b/w info request and received	days b/w info received and report	days b/w info received & start date	days b/w start and report		hours to complete
50	open	James River Multidistrict													
51	open	Dickinson													
52	DT	Mayville-Portland C-G													
							Average		42	27	145	74	71		50

Assigned		Total Audit Days	Average Audit Days	Audits Completed	Total Hours	Average hrs	Act aud days
24	DT	917	70.5	13	649	50	6.2

NOT IN COMPLIANCE FOLLOW-UP REVIEWS

	Auditor	School District	100% or on-site audit	Info Request	Info Received	Review Started	Report Date	Status	Members	days b/w info request and received	days b/w info received and report	days b/w info received & start date	days b/w start and report		hours to complete
1	DT	Williston		1/7/2014	1/29/2014			Received info.	217	22					
2	Hold	McClusky							18						
3	Hold	Ft. Yates							35						
4	DT	Kindred		1/7/2014	1/23/2014	1/31/2014	2/11/2014	Done	54	16	19	8	11	In compliance	15
5	Hold	Minnewaukan							36						
6	DT	Powers Lake		10/10/2013	11/25/2013	12/24/2013	1/29/2014	Done	19	46	65	29	36	In compliance	23
7	DT	Dunseith		1/7/2014	2/10/2014			Received info.	54	34					
									86	30	42	19	24		19

Assigned
4 DT

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE AUDIT DIVISION
AUDIT SERVICES DIVISION
BUDGETED HOURS FOR THE FISCAL YEAR JULY 1, 2013 TO JUNE 30, 2014

Progress as of December 31, 2013

		2013-14 BUDGET HOURS (2 FTE'S)	**2013-14** BUDGET HOURS (1 FTE'S)	YTD HOURS 7/1/2013 - 6/30/2014	1st quart. hours 7/1/2013 - 9/30/2013	2nd quart. hours 10/1/2013 - 12/31/2013	3rd quart hours 1/1/14 3/31/14	4th quart. hours 4/1/14 - 6/30/2014
1. Audit								
School District Audits		2,680	1,340	522	248	274		
Follow-up on "not-in-compliance" previous audits		276	160	22	0	22		
TFFR File Maintenance		48	48	27	14	13		
Benefit Payments-deaths, purchase of service, and refunds review		32	32	24	24	0		
Executive Limitations		20	0	0	0	0		
Policy & Procedure Manual		0	0	0	0	0		
Special Projects(Including Policy & Procedure Manual)		80	40	0	0	0		
Total Audit Hours	76%	3,136	1,620	595	285	309		
2. Administrative (meetings & prep, CEU's, etc.)	9%	384	192	306	207	99		
3. Annual/Sick Leave, Holidays	15%	640	320	236	116	120		
Total Budget Hours	100%	4,160	2,132	1,137	608	528		

Note: Audit Supervisor position vacant as of 7/15/2013

MEMORANDUM

FROM: Dottie Thorsen, Internal Auditor

TO: Fay Kopp, Deputy Executive Director-Chief Retirement Officer
Shelly Schumacher, Retirement Program Manager

DATE: February 20, 2014

SUBJECT: TFFR File Maintenance Audit
Second Quarter (2013/14)
(October, November, and December)

Conclusion: No exceptions noted

These are the audit procedures for the quarterly audit.

1) I ran and reviewed the table reports for all RIO staff members.

2) I reviewed all of the transactions on the Data Processing Coordinator's table report.

3) I compared the information on four member action forms with the information posted on CPAS.

REPORT ON COMPLIANCE AUDIT{PRIVATE }
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
MIDWAY SCHOOL DISTRICT
FEBRUARY 19, 2014

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with the RIO/TFFR Management upon completion and the Audit Committee of the State Investment Board (SIB) quarterly.

SCOPE

This audit is designed to test the accuracy of retirement salaries and contributions reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the District for the 2010/11 through 2011/12 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. See Primary Test.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited. See Primary Test.

The Primary Test did not disclose any reporting procedure used by the District that would affect a large portion of the population for fiscal years 2010/11 through 2011/12. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDINGS

In our opinion, for the time period covered in the audit, the retirement salaries for the fiscal years 2010/11 through 2011/12 reported by Midway Schools were in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted.

1. The District reported ineligible bus salary for two members.
2. The District did not report eligible in-staff subbing for one member.

RECOMMENDATIONS AND CORRECTIVE ACTIONS

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is www.nd.gov/rio//TFFR/Publications.

Finding 1:
The District reported ineligible bus salary to TFFR as retirement salary for two members. The error caused an overpayment of member/employer contributions. RIO will correct the members' accounts and notify them that an adjustment has been made (See Primary Test and Worksheet for Corrections). It is the responsibility of the District to return the overpaid contributions to the members.

Finding 2:
The District did not report in-staff subbing for one member. This error was an isolated occurrence. RIO will correct the member's account and notify her that an adjustment has been made (See Primary Test and Worksheet for Corrections).

The net amount of overpaid contributions for Finding 1 and 2 is $920.06 (Schedule 2). The check for the amount overpaid will be sent to the Business Manager. Please provide a written response on the District's intent to correct the above errors, including issuing written agreements for summer duties, in future reporting to TFFR. **Please return the written response to the Retirement and Investment Office by March 31, 2014.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.

Dottie C. Thorsen

Dottie C. Thorsen
Auditor

bh
Enclosures

ND Retirement and Investment Office

Teachers' Fund for Retirement
State Investment Board

1930 Burnt Boat Drive
P.O. Box 7100
Bismarck, ND 58507-7100
Telephone 701-328-9885
Toll Free 800-952-2970
Fax 701-328-9897
www.nd.gov/rio

February 11, 2014

Steven Hall
Superintendent
Kindred School District
255 Dakota St.
Kindred ND 58051-4027

RE: TFFR Compliance Audit – Follow-Up Review

Dear Mr. Hall:

During fiscal years 2009/10 through 2010/11, the North Dakota Retirement and Investment Office audited the Kindred School District to determine whether salaries, service hours, and members reported to TFFR were in compliance with the North Dakota Century Code. The District was found not in compliance in a report dated February 27, 2013. As a result, TFFR Board policy requires a follow-up review after the audit period to ensure that reporting procedures have been corrected.

Audit Division staff reviewed payroll records and contracts requested from the District for five members reported to TFFR in fiscal year 2012/13. At the time of the audit review, the retirement salaries reported to TFFR for the audit sample were in compliance. Based on our follow-up review, it appears the findings from the January 2013 compliance audit report have been corrected. Please continue to follow proper TFFR reporting procedures.

On behalf of the TFFR Board, I would like to thank you and Melanie Moffet for your cooperation during the TFFR audit follow-up review. If you have any questions, please contact us at the Retirement and Investment Office.

Sincerely,

Fay Kopp

Fay Kopp
Deputy Executive Director/
Chief Retirement Officer

Dottie Thorsen

Dottie Thorsen
Auditor

bh
Enclosure
c: Melanie Moffet

ND Retirement and Investment Office

Teachers' Fund for Retirement
State Investment Board

1930 Burnt Boat Drive
P.O. Box 7100
Bismarck, ND 58507-7100
Telephone 701-328-9885
Toll Free 800-952-2970
Fax 701-328-9897
www.nd.gov/rio

January 30, 2014

Marlyn Vatne
Superintendent
Powers Lake School District
PO Box 346
Powers Lake ND 58773

RE: TFFR Compliance Audit - Follow-Up Review

Dear Mr. Vatne:

During fiscal years 2009/10 through 2010/11, the North Dakota Retirement and Investment Office audited the Powers Lake School District to determine whether salaries, service hours, and members reported to TFFR were in compliance with the North Dakota Century Code. The District was found not in compliance in a report dated January 3, 2013. As a result, TFFR Board policy requires a follow-up review after the audit period to ensure that reporting procedures have been corrected.

Audit Division staff reviewed payroll records and contracts requested from the District for six members reported to TFFR in fiscal year 2012/13. At the time of the audit review, the retirement salaries reported to TFFR for the audit sample were in compliance. Based on our follow-up review, it appears the findings from the January 2013 compliance audit report have been corrected. Please continue to follow proper TFFR reporting procedures.

On behalf of the TFFR Board, I would like to thank you and Gina Footh for your cooperation during the TFFR audit follow-up review. If you have any questions, please contact us at the Retirement and Investment Office.

Sincerely,

Fay Kopp

Fay Kopp
Deputy Executive Director/
Chief Retirement Officer

Dottie Thorsen

Dottie Thorsen
Internal Auditor

Enclosure
c Gina Footh

REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
MIDKOTA SCHOOL DISTRICT
JANUARY 16, 2014

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with the RIO/TFFR Management upon completion and the Audit Committee of the State Investment Board (SIB) quarterly.

SCOPE

This audit is designed to test the accuracy of retirement salaries and contributions reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the District for the 2010/11 through 2011/12 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. See Primary Test.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited. See Primary Test.

The Primary Test did not disclose any reporting procedure used by the District that would affect a large portion of the population for fiscal years 2010/11 through 2011/12. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDINGS

In our opinion, for the time period covered in the audit, the retirement salaries for the fiscal years 2010/11 through 2011/12 reported by the Midkota School District were in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted.

1. The District converted a benefit (utility allowance) to salary and reported it to TFFR for one retired member.
2. The District reported service hours incorrectly for two part-time members.

RECOMMENDATIONS AND CORRECTIVE ACTION

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is www.nd.gov/rio//TFFR/Publications.

Finding 1:
The District converted a fringe benefit (utility allowance) to salary for one retired member and reported it as retirement salary. This salary is not reportable to TFFR. The error caused an overpayment of employer contributions. RIO will correct the member's account and notify him that an adjustment has been made (See Primary Test and Worksheet for Corrections).

Finding 2:
The District reported service hours incorrectly for two part-time members. One member's hours will not be corrected because she earned a full year of service credit in another District. The second member's account will be corrected.

The amount overpaid for Finding 1 is $850.00 (Schedule 2). The check for the amount overpaid will be sent to the Business Manager. Please provide a written response on the District's intent to correct the above errors in future reporting to TFFR. **Please return the written response to the Retirement and Investment Office by February 21, 2014.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.

Dottie C. Thorsen

Dottie C. Thorsen
Internal Auditor

bh
Enclosures

REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
GST EDUCATIONAL SERVICES
JANUARY 7, 2014

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with the RIO/TFFR Management upon completion and the Audit Committee of the State Investment Board (SIB) quarterly.

SCOPE

This audit is designed to test the accuracy of retirement salaries and contributions reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the District for the 2010/11 through 2011/12 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. See Primary Test.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited. See Primary Test.

The Primary Test did not disclose any reporting procedure used by the District that would affect a large portion of the population for fiscal years 2010/11 through 2011/12. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDINGS

In our opinion, for the time period covered in the audit, the retirement salaries for the fiscal years 2010/11 through 2011/12 reported by GST Educational Services were in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted.

1. The District did not issue written agreements to all summer teachers.
2. The District reported summer salary in the wrong fiscal year for two members.
3. The District reported service hours incorrectly for one part-time member.

RECOMMENDATIONS AND CORRECTIVE ACTION

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is www.nd.gov/rio//TFFR/Publications.

Finding 1:
The District does not issue contracts or written agreements for all members who teach summer salary. TFFR recommends that the District provide written agreements for summer salary for all members. A written agreement can be a contract, school board minutes or other official document evidencing a contractual relationship between a teacher and participating employer. In the future, if written agreements are not issued to teachers from outside the District or teachers without a continuing contract with the District, the salary would not be reportable to TFFR.

Finding 2:
The District reported summer salary in the wrong fiscal year for two members. Summer salary is reported to TFFR in the fiscal year earned. The error caused an overpayment of member/employer contributions due to the change of percentages in contribution rates. RIO will correct the members' accounts and notify them that an adjustment has been made (See Primary Test and Worksheet for Corrections).

Finding 3:
The District reported service hours incorrectly for one part-time member. No correction will be made to the account because the member earned a full year of service credit in another District.

The net amount of overpaid contributions for Finding 2 is $56.31 (Schedule 2). The check for the amount overpaid will be sent to the Business Manager. Please provide a written response on the District's intent to correct the above errors, including issuing written agreements for summer duties, in future reporting to TFFR. **Please return the written response to the Retirement and Investment Office by January 30, 2014.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.

Dottie C. Thorsen

Dottie C. Thorsen
Internal Auditor

Enclosures

REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
NEDROSE SCHOOL DISTRICT
DECEMBER 9, 2013

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with the RIO/TFFR Management upon completion and the Audit Committee of the State Investment Board (SIB) quarterly.

SCOPE

This audit is designed to test the accuracy of retirement salaries reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the District for the 2010/11 through 2011/12 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. See Primary Test.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited.

The Primary Test did not disclose any reporting procedure used by the District that would affect a large portion of the population for fiscal years 2010/11 through 2011/12. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDINGS

In our opinion, for the time period covered in the audit, the retirement salaries reported by the Nedrose School District for the fiscal years 2010/11 through 2011/12 were in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9).

There were no errors noted.

RECOMMENDATION

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is www.nd.gov/rio//TFFR/Publications.

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determination.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.

Dottie Thorsen

Dottie Thorsen
Internal Auditor

Enclosures

ND Retirement and Investment Office

Teachers' Fund for Retirement
State Investment Board

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P.O. Box 71
Bismarck, ND 58507-71
Telephone 701-328-98
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December 5, 2013

Bill Strasser
Great Western Network - Director
Washburn School
PO Box 280
Washburn ND 58577

RE: TFFR Compliance Audit for the Turtle Lake-Mercer District/fiscal agent for the Great Western Network

Dear Mr. Strasser:

I have completed the audit for the Turtle Lake-Mercer District who is the fiscal agent for the Great Western ITV Network. The purpose of the audit was to ensure that retirement salaries reported by the District for members of the Teachers' Fund for Retirement (TFFR) were in compliance with the definition of salary as it appears in the NDCC 15-39.1-04(9). Other reporting procedures reviewed during the audit process included calculation of service hours and eligibility for TFFR membership. A sample of salaries was reviewed for the 2010/11 through the 2011/12 school years.

One error was noted in the reporting of members from the Great Western Network. Written agreements were not issued for two teachers who taught at private schools that are member Districts of the ITV Network. The private schools are not participating employers that report to TFFR. TFFR requires that a teacher have a written agreement from the participating District and a license issued from the Education Standards and Practices Board for membership. A written agreement can be a contract, school board minutes or other official document evidencing a contractual relationship between a teacher and participating employer. In the future, if written agreements are not issued to teachers from a participating District or the Great Western Network, the salary would not be reportable to TFFR.

Since the Great Western Network agreed to provide written agreements for the ITV salary for the two members in future reporting to TFFR, no corrections were made to the accounts.

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in TFFR reporting salary requirements. The website address is www.nd.gov/rio//TFFR/Publications.

If you have any questions regarding the audit, please contact me at the Administrative Office (1-800-952-2970).

Sincerely,

Dottie C. Thorsen

Dottie C. Thorsen
Internal Auditor

bh
c: Business Manager-Susan Davis

REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
TURTLE LAKE – MERCER SCHOOL DISTRICT
ALSO FISCAL AGENT FOR THE GREAT WESTERN NETWORK
DECEMBER 5, 2013

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with the RIO/TFFR Management upon completion and the Audit Committee of the State Investment Board (SIB) quarterly.

SCOPE

This audit is designed to test the accuracy of retirement salaries and contributions reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the Turtle Lake-Mercer District for the 2010/11 through 2011/12 school years. The District is also the fiscal agent for the Great Western Network (regional consortium for ITV teachers). For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. See Primary Test.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited. See Primary Test.

The Primary Test did not disclose any reporting procedure used by the District that would affect a large portion of the population for fiscal years 2010/11 through 2011/12. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDINGS

In our opinion, for the time period covered in the audit, the retirement salaries for the fiscal years 2010/11 through 2011/12 reported by the Turtle Lake–Mercer School District /fiscal agent for the Great Western Network were generally in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted.

1. The District did not issue written agreements to summer teachers.
2. The Great Western Network did not issue written agreements for two members that were employed by non-public schools that are participating members of the Network.
3. The District reported the incorrect contract salary for one member in 2010/11.

4. The District reported summer salary in the wrong fiscal year for one member.
5. The District reported ineligible car maintenance salary for the Driver's Education teacher in 2010/11.
6. The District reported service hours incorrectly for one retired member who had returned to teach.

RECOMMENDATIONS AND CORRECTIVE ACTION

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is www.nd.gov/rio//TFFR/Publications.

Finding 1:
The District reported summer salary for one out-of-district teacher. The District stated they do not issue contracts or written agreements for summer school salary. TFFR recommends that the District provide written agreements for summer salary for all members. A written agreement can be a contract, school board minutes or other official document evidencing a contractual relationship between a teacher and participating employer. In the future, if written agreements are not issued to teachers from outside the District or teachers without a continuing contract with Turtle Lake-Mercer, the salary would not be reportable to TFFR. No correction was made to the account.

Finding 2:
The Great Western Network reported two teachers without written agreements. These teachers taught at private schools that participate in the ITV Network. The private schools are not participating employers that report to TFFR. The Director for the Great Western Network agreed to provide written agreements from the ITV Network for the ITV salary for these members in future reporting to TFFR. No corrections were made to the two accounts.

Finding 3:
The District did not report eligible contract salary for one member in 2010/11. This error was an isolated occurrence by the prior Business Manager. The error caused a shortage of member/employer contributions. RIO will make the adjustment to the account and notify the member that a correction has been made. It is the responsibility of the District to collect the member contributions due (See Primary Test and Worksheet for Corrections).

Finding 4:
The District reported summer salary in the wrong fiscal year for one member in 2011/12. The District reported two days of July Driver's Education salary as June salary. The salary will be moved to the correct fiscal year. The error caused a shortage of member/employer contributions due to the change of percentages in contribution rates. RIO will correct the member's account and notify her that an adjustment has been made (See Primary Test and Worksheet for Corrections).

Finding 5:
The District reported ineligible car maintenance salary to TFFR in 2010/11. The error caused an overpayment of member/employer contributions. RIO will correct the member's account and notify her that an adjustment has been made (See Primary Test and Worksheet for Corrections).

Finding 6:
The District reported service hours incorrectly for one retired member who had returned to teach in 2011/12. The retired teacher did not exceed the maximum limit of service hours. The account will be corrected.

The net amount due for Finding 3, 4, and 5 is $284.10 (Schedule 2). The billing invoice for the amount due will be sent to the Business Manager. Please provide a written response on the District's intent to correct the above errors, including issuing written agreements for summer duties, in future reporting to TFFR. **Please return the written response and payment due to the Retirement and Investment Office by January 6, 2014.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.

Dottie C. Thorsen

Dottie C. Thorsen
Internal Auditor

Enclosures

MEMORANDUM

TO: SIB Audit Committee
FROM: Fay Kopp
DATE: February 21, 2014
SUBJ: GASB Implementation Plan

NDTFFR, NDPERS, and the State Auditor's Office (SAO), have started making plans to implement the new pension reporting standards, GASB Statements No. 67 and No. 68, in the State of ND. Our goal is to work through this process jointly (where appropriate) in order to reduce costs and provide consistency for state and local governments, school districts, and other TFFR and PERS participating employers. Following is a summary of our tentative plans to date.

Team members include:

TFFR: Fay Kopp, Shelly Schumacher, and Connie Flanagan
PERS: Sparb Collins, Deb Knudsen, and Sharon Schiermeister
SAO: Ron Tolstad

October – December 2013

- Shelly Schumacher and Susan Walcker attended Public Pension Fund conference on GASB implementation.
- Segal consultants made GASB presentations to TFFR Board, PERS Board, and Legislative Employee Benefits Programs Committee.
- TFFR and PERS staff held initial GASB planning meeting.
- Fay and Sparb met with State Auditor Bob Peterson, Ed Nagel, and Ron Tolstad, State Auditor's Office (SAO).

January – March 2014

- Fay, Sparb, and Ron met to discuss a joint GASB 68 implementation planning meeting which would be hosted by SAO, TFFR, and PERS. The planning meeting could include TFFR and PERS staff, actuaries, and auditors; State Auditor's Office; State Office of Management and Budget (OMB); 10 -12 participating employers including administrator/ business manager/auditor from school districts, cities, counties, and state; representatives from NDCEL, NDSBA, NDSBMA, ND United; League of Cities, Association of Counties, etc. At meeting, we plan to provide GASB 68 information, request feedback, and field questions from attendees to assist TFFR, PERS, and SAO in developing GASB 68 implementation plan and future training session for all employers.

- TFFR sent GASB survey to all TFFR participating employers/school districts.

- Connie Flanagan and Sharon Schiermeister attended GASB educational workshop sponsored by Eide Bailly in Fargo.

- Fay is meeting with NDU, NDCEL, and NDSBA to discuss GASB 68 and potential impact on school district financial statements.

- Actuary is drafting GASB 68 implementation timeline/outline for discussion by TFFR and PERS staff, State Auditor's Office, etc.

- Actuaries, auditors, and TFFR and PERS staff will begin developing a draft GASB 68 implementation plan for ND.

Spring – Summer 2014

- Host GASB 68 implementation planning meeting (small group).

- Modify and finalize GASB 68 implementation plan, as needed.

- Schedule GASB 68 implementation training session for <u>all</u> TFFR and PERS employers (large group).

Summer - Fall 2014

- Host GASB 68 implementation training session for representatives of all state and local governments, school districts, and other TFFR and PERS employers.

- Develop video or webcast GASB 68 training session for availability on TFFR, PERS, SAO websites.

- Implement GASB 67 in 2014 actuarial and audit reports (October 2014).

- Continue refining plans to implement GASB 68 in 2015 actuarial and audit reports (October 2015).

Other possible GASB presentations / meetings:

NDSBMA	May 2014, May 2015
ND School Study Council	September 2014
NDCEL	October 2014
NDSBA	October 2014

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

401 Merritt 7
Norwalk, CT 06856-5116
Phone: (203) 847-0700
www.gasb.org

New GASB Pension Statements to Bring about Major Improvements in Financial Reporting

In June 2012, the GASB approved a pair of related Statements that reflect substantial improvements to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, *Financial Reporting for Pension Plans*, addresses financial reporting for state and local government pension plans. Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes new accounting and financial reporting requirements for governments that provide their employees with pensions.

The guidance contained in these Statements will change how governments calculate and report the costs and obligations associated with pensions in important ways. It is designed to improve the decision-usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments.

Statement 67 replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, for most public employee pension plans. Statement 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, for most government employers. The new Statements also replace the requirements of Statement No. 50, *Pension Disclosures*, for those governments and pension plans.

Background

To ensure that GASB pronouncements continue to be of high quality and are in sync with the continuously evolving government environment, the GASB periodically reexamines its standards. Reexamination typically takes place after a Statement has been in place and fully implemented for at least five years. Research on the GASB's pension standards indicated opportunities for significant improvement.

Governments provide pension benefits through various types of *defined benefit* pension plans, which specify the *amount of benefits* to be provided to the employees after the end of their employment. *Single-employer* pension plans provide pension benefits to the employees of one employer (a *single employer*). *Multiple-employer* pension plans provide pension benefits to the employees of more than one employer. Under an *agent* multiple-employer pension plan, the assets of a multiple-employer pension plan are pooled for investment purposes but separate "accounts" are maintained for each individual *agent employer*, so that each agent employer's share of the pooled assets is legally available to pay the pensions of only its employees. In a *cost-sharing* multiple-employer pension plan, *cost-sharing employers* share their assets and their obligations to provide pension benefits to their employees—plan assets can be used to pay the pensions of the employees of any employer that provides pensions through the plan. The new Statements address all of these types of plans, as well as *defined contribution* plans, which stipulate the amount to be contributed to employee accounts each year, not the amount of benefits that will be paid in the future.

The Statements apply specifically to governments and pension plans in which a government's contributions to the trust used to administer a pension plan are (a) irrevocable, (b) restricted to paying pension benefits, and (c) are beyond the reach of creditors. Pension benefits provided through trusts that do not meet those three criteria are not addressed in these new Statements and those pension benefits would continue to be accounted for and reported following Statements 25, 27, and 50.

It is important to note that the new Statements relate to *accounting and financial reporting* issues only—how pension costs and obligations are measured and reported in audited external financial reports. The Statements do not address how governments approach pension plan *funding*—a government's policy regarding how much money it will contribute to its pension plan each year. While there has been a close relationship between how governments fund pensions and how they account for and report information about them until now, the new guidance establishes a decided shift from the *funding-based* approach to an *accounting-based* approach. The Board crafted its new Statements with the fundamental belief that funding is squarely a policy decision for elected officials to make as part of the government budget approval process.

Reporting by Governments in Defined Benefit Plans

Recognizing a Liability Related to Pension Promises for Single and Agent Employers

State and local government employees often earn two types of compensation in return for their efforts—current compensation and deferred compensation. Salaries and other forms of current compensation reflected in the paycheck are received by employees during their employment. On the other hand, deferred compensation, including pension benefits, is not received until after the employee's tenure with the government has concluded and vesting and age requirements have been met.

Nevertheless, a government has a present obligation to pay these deferred benefits in the future—a *total pension liability*—once they have been earned. When the total pension liability exceeds the pension plan's net assets (now referred to as plan net position) available for paying benefits, there is a *net pension liability*. Governments will now be required to report that amount as a liability in their accrual-based financial statements (for example, the government-wide statement of net position). The pension plan's net position available for paying benefits is to be measured using the same valuation methods that are used by the pension plan for purposes of preparing its financial statements, including measuring investments at fair value.

This is an important change that will more clearly depict the government's financial position. While this information will, in some cases, give the appearance that a government is financially weaker than it was previously, the financial reality of the government's situation will not have changed. Reporting the net pension liability (or asset, if plan net position exceeds the total pension liability) on the face of the financial statements will more clearly portray the government's financial status because the pension liability will be placed on an equal footing with other long-term obligations.

Measuring the Pension Liability

The new pension standards reflect several changes from those currently in place regarding how governments calculate their total pension liability. The measurement process detailed in the new standards involves three essential steps:

1. Projecting future benefit payments for current and former employees and their beneficiaries
2. Discounting those payments to their present value
3. Allocating the present value over past, present, and future periods of employee service.

The standards continue the general existing practice of incorporating expectations of future employment-related events into projections of pension benefit payments—like projected salary increases and projected years of service—if they affect the amount of pension payments employees will receive. Provisions for automatic cost- of-living adjustments (COLAs) and other automatic benefit changes (which generally are written into the pension benefit terms) will also continue to be included in projections. On the other hand, *ad hoc* COLAs and other ad hoc benefit changes—which are made at the discretion of the government—will only be included in projections if they occur with such regularity that they are effectively automatic.

To discount projected pension benefit payments to a present value, governments assume a *discount rate*. Standards now in effect require governments to apply a discount rate equal to the long-term expected rate of return on the investments of the pension plan. The long-term expected rate of return will continue to be the starting point for the discount rate. However, the new standard makes it clear that this rate should be applied only to available pension plan assets that are expected to be invested using a strategy to achieve that return.

To the extent that a pension plan's net position and projected contributions associated with active and inactive employees, including retirees, is expected to fully cover projected benefit payments for those individuals, the long-term expected rate of return will be used. If there comes a point in the projections when plan net position and contributions related to active and inactive employees is no longer projected to be greater than or equal to projected benefit payments related to those employees and administrative expenses, then from that point forward a government would be required to discount the projected benefit payments using a municipal borrowing rate—a tax- exempt, high-quality (an average rating of AA/Aa or higher, including equivalent ratings) 20-year general obligation bond index rate.

Finally, benefit payments—discounted to their present value—are allocated to past, current, and future periods. The new standards require all governments to use the entry age actuarial cost method to allocate present value, and to do so as a level percentage of payroll. Under this method, the present value of projected benefits is attributed to employees' expected periods of employment starting from when employees first begin to earn benefits.

Calculating Pension Expense

A government's net pension liability varies from year to year for a variety of reasons, including actual earnings on plan investments, employee compensation changes, interest on the outstanding pension liability, contributions from employers and employees, and actual economic or demographic changes not matching up with assumptions made in the actuarial calculations. When these period-to-period changes should be included in the calculation of the cost of a government's operations—as expenses in the accrual-based financial statements—is a key issue.

The new standards will better align the recognition of pension expense with the period in which the related benefits are earned. Considered in total, the changes set forth by the GASB will have the overall effect of expense recognition being accelerated. Under the new standards, several causes of change in the net pension liability will be factored into the calculation of pension expense immediately in the period in which the change occurs:

1. Benefits earned each year
2. Interest on the total pension liability
3. Changes in benefit terms
4. Projected earnings on plan investments
5. Changes in plan net position from other than investments

The effects on the total pension liability of (a) changes in assumptions and (b) differences between assumptions and actual experience are to be recognized initially as deferred outflows of resources or deferred inflows of resources and then introduced into the expense calculation systematically and rationally over the average remaining years of employment of employees (active employees and inactive employees, including retirees). This period is likely to be significantly shorter than the period of up to 30 years over which governments may now recognize portions of their pension expense.

The difference between the expected earnings on plan investments and actual investment earnings is to be recognized as deferred outflows of resources or deferred inflows of resources and included in expense in a systematic and rational manner over a five-year closed period rather than longer periods that are allowed under the current standards.

Reporting by Governments in Cost-Sharing Multiple-Employer Plans

Under the pension standards now in effect, cost-sharing employers have not been required to present actuarial information about pensions. Instead, information has been required to be presented in the pension plan's own financial statements for all of the participating governments combined.

Through its research, the GASB concluded that the needs of users of information regarding cost-sharing employers do not differ significantly from those interested in single and agent employers. Therefore, the GASB believes it is important to give users of the financial statements of cost-sharing employers access to better, more transparent financial information. Consequently, under the new standards the GASB is requiring that cost-sharing governments report a net pension liability, pension expense, and pension-related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the governments in the plan.

Note Disclosures and Required Supplementary Information

The new standards contain requirements for disclosing information in the notes to the financial statements and presenting required supplementary information (RSI) following the notes. Due to the complexity of the array of pension plan features, the Board concluded it was critical that financial statement users have access to certain basic plan information through governments' own financial statements. The Board believes that including this information will enhance the usefulness of financial reports for both decision making and assessing accountability.

All governments participating in a defined benefit pension plan will now include the following information in their note disclosures:

- Descriptions of the plan and benefits provided
- Significant assumptions employed in the measurement of the net pension liability
- Descriptions of benefit changes and changes in assumptions
- Assumptions related to the discount rate and the impact on the total pension liability of a 1 percentage point increase and decrease in the discount rate
- Net pension liability and deferred outflows of resources and deferred inflows of resources.

Single and agent governments also will be required to disclose, for the current period, the beginning and ending balances of the net pension liability, and the effects of changes during the period (such as the effects of service cost, benefit changes, and actual investment earnings).

Single and agent governments will be required to present RSI schedules with the following information for each of the past 10 years (generally on a prospective basis):

- The beginning and ending balances of the total pension liability, the plan trust's net position, and the net pension liability, and their components

- Total pension liability, the plan's net position, the net pension liability, a ratio of the plan's net position to the total pension liability, the covered-employee payroll, and a ratio of the net pension liability as a percentage of the covered-employee payroll.

If a single, agent, or cost-sharing government has an actuarially determined annual pension contribution (or, if not actuarially determined, then the statutorily determined contribution), it is also required to present an RSI schedule with the following information for each of the past 10 years (generally on a prospective basis): (1) the actuarially determined annual pension contribution (or, if not actuarially determined, then the statutorily determined contribution), (2) the amount of employer contribution actually made, (3) the difference between 1 and 2, (4) the payroll of employees covered by the plan, and (5) a ratio of 2 divided by 4.

Governments are also now required to present notes to the RSI schedules regarding factors that significantly affect the trends in the schedules. For single and agent employers, significant assumptions also should be disclosed.

Special Funding Situations

Special funding situations are circumstances in which (a) a *nonemployer contributing entity* (such as a state government) is legally responsible for contributions directly to a pension plan that is used to provide pensions to the employees of another government (such as school districts located within that state) and (b) one or both of the following is true:

1. The nonemployer is the only entity with a legal obligation to make contributions directly to the plan
2. The amount of the contributions for which the nonemployer is legally responsible is not dependent upon one or more events unrelated to the pensions.

In a special funding situation, the nonemployer has essentially assumed a portion of the employer entity's pension obligation as its own. Consequently, if the nonemployer is a government, it will recognize its proportionate share of the net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to the employer's pensions in its own financial statements.

The government benefitting from the nonemployer's contributions in a special funding situation will calculate its net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions prior to the nonemployer government's support, but would *recognize* in its financial statements only its proportionate share.

Reporting by Governments in Defined Contribution Plans

As previously noted, defined *contribution* plans stipulate the *amount to be contributed to an employee's account* each year, and not the amount of benefits employees will receive after the end of their employment. The new standards generally carry forward the existing requirements regarding defined contribution pensions. Governments will report an expense equal to the amount they are required to contribute for employee service each year and a liability equal to the difference between that required contribution and what the government actually contributes. Governments will also make descriptive disclosures about the plan and its terms, and the method by which contributions to the plan are determined.

Reporting by Pension Plans

Statement No. 67 on plan reporting details guidance for financial reporting by *defined benefit pension plans* administered through trusts that meet the criteria described earlier. This guidance generally carries forward the present framework for the separately issued financial reports of defined benefit pension plans. Statement 67 will significantly improve related financial reporting through enhanced note disclosures and new RSI schedules. The Statement also details note disclosure requirements for *defined contribution pension plans* administered through trusts that meet the criteria.

Effective Dates

Statement No. 67 will take effect for pension plans in fiscal years beginning after June 15, 2013 (that is, for years ended June 30, 2014 or later). Statement No. 68 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). However, the GASB encourages plans and governments to implement the new standards earlier.

Obtaining the New Statements

The new Statements should be available in early August to download free from the GASB website (www.gasb.org) or to purchase in printed form.

- Order a printed copy of Statement 67
- Order a printed copy of Statement 68
- Read the news release

GASB GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Q&A REPORTING BY PENSION PLANS

1 WHAT NEW REQUIREMENTS REGARDING FINANCIAL REPORTING WILL STATE AND LOCAL GOVERNMENT PENSION PLANS BE IMPLEMENTING?

The Governmental Accounting Standards Board (GASB) approved Statement No. 67, *Financial Reporting for Pension Plans,* in June 2012. The Statement is available free of charge at www.gasb.org. (Separate fact sheets describe the GASB's new pension standards for government employers that provide pension benefits to their employees.) Statement 67 contains guidance for pension plans that prepare and issue their own financial reports, as well as for plans that are reported as a fiduciary fund by a government.

2 WHICH PENSION PLANS WILL BE REQUIRED TO IMPLEMENT THE NEW STATEMENT?

The new Statement specifically applies to pension plans that administer benefits through trusts that meet all three of the following criteria:

- Contributions from employers (and by other governments and entities on behalf of the employers) are irrevocable
- Assets in the trust are dedicated to providing pension benefits to the plan members
- Assets in the trust are protected from the creditors of the employers (and other contributing governments and entities), the plan administrator, and the plan members (for defined benefit pensions).

The vast majority of government pensions are administered through trusts meeting these requirements. The GASB is currently deliberating proposals regarding pensions that are outside scope of these Statements.

The new Statement applies primarily to defined benefit pension plans, which are used to administer pensions that specify the benefits to be provided to the employees after the end of their employment. By contrast, defined contribution plans administer benefits that stipulate only the contributions to an active employee's account each year. Statement 67 applies to both single-employer defined benefit plans and multiple-employer defined benefit plans.

The assets administered by an agent multiple-employer plan are pooled for investment purposes but separate accounts are maintained for each individual participating employer. As a result, each participating employer's share of the pooled assets is legally available to pay the defined benefit pensions of only its retirees.

In a cost-sharing multiple-employer plan, on the other hand, the participating employers pool both their assets and their obligations to provide pension benefits—meaning that plan assets can be used to pay the defined benefit pensions of the retirees of any participating employer.

3 WHAT FINANCIAL STATEMENTS WILL A DEFINED BENEFIT PENSION PLAN PRESENT?

In most respects, the requirements for pension plan financial statements remain unchanged from the prior standards. A defined benefit pension plan will present two financial statements—a statement of fiduciary net position and a statement of changes in fiduciary net position.

The statement of fiduciary net position reports on a pension plan's financial position as of the end of the fiscal year and contains the following information:

- Assets, such as cash, receivables from employers and plan members, investments (measured at fair value), and equipment and other assets used in pension plan operations
- Deferred outflows of resources
- Liabilities, such as benefit payments due to plan members
- Deferred inflows of resources
- Fiduciary net position, which equals assets, plus deferred outflows of resources, minus liabilities, minus deferred inflows of resources.

The statement of changes in fiduciary net position reports on the inflows and outflows of resources that increased and decreased its net position, respectively, and contains the following information:

- Additions, such as contributions from employers and plan members, and net investment income
- Deductions, such as benefit payments and administrative expense
- Net increase (decrease) in fiduciary net position, which equals the difference between additions and deductions.

4 WHAT DOES STATEMENT 67 REQUIRE DEFINED BENEFIT PENSION PLANS TO DISCLOSE IN THE NOTES TO THEIR FINANCIAL STATEMENTS?

All defined benefit pension plans will disclose information that includes the following:

- Descriptive information, such as the types of benefits provided, the classes of plan members covered, and the composition of the pension plan's board
- Pension plan investment information, such as the pension plan's investment policies, how fair value is determined, concentrations of investments with individual organizations equaling or exceeding 5 percent of the pension plan's fiduciary net position, and the annual money-weighted rate of return on pension plan investments
- Other information, such as contributions, reserves, and allocated insurance contracts.

Single-employer and cost-sharing plans will disclose additional information, such as:

- The total pension liability of the participating employers, the pension plan's fiduciary net position, the net pension liability, and the pension plan's fiduciary net position as a percentage of the total pension liability
- Significant assumptions used to measure the total pension liability, such as inflation, salary changes, discount rate, and mortality.

Agent plans will not make these latter disclosures because separate measures of each participating employer's total pension liability, share of plan net position, and net pension liability are determined.

Aggregated information about these measures for all employers obscures the information about an individual employer, yet it would not be practical to make disclosures for each one.

5 WHAT DOES STATEMENT 67 REQUIRE DEFINED BENEFIT PENSION PLANS TO PRESENT AS REQUIRED SUPPLEMENTARY INFORMATION?

Single-employer and cost-sharing plans will present schedules of required supplementary information following the notes. The schedules will contain the following information for each of the past 10 years:

- The beginning and ending balances of the total pension liability, the plan's net position, and the net pension liability, as well as the change in those amounts during the year presented by cause (for example, service cost)
- A ratio of plan net position divided by the total pension liability, the payroll amount for current employees in the plan (covered-employee payroll), and a ratio of the net pension liability divided by covered- employee payroll
- If contributions to the plan are actuarially determined: the employers actual contributions, the difference between the actual and actuarially determined contributions, and a ratio of the actual contributions divided by covered-employee payroll.

All defined benefit pension plans will present a 10-year schedule containing the annual money-weighted rate of return on pension plan investments for each year.

6 WHAT DOES STATEMENT 67 REQUIRE DEFINED CONTRIBUTION PENSION PLANS TO DISCLOSE?

Statement 67 requires defined contribution plans to present a less extensive set of note disclosures containing the classes of plan members covered, the number of plan members, participating employers, and nonemployer contributing entities, and the authority under which the pension plan is established and may be amended.

7 WHEN WILL PENSION PLANS BEGIN REPORTING UNDER THE NEW STANDARDS?

Pension plans are required to put the new standards into effect beginning in fiscal years ending June 30, 2014, and later. The GASB does, however, encourage plans to implement the new standards sooner.

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Q&A GOVERNMENTS IN COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLANS

1 WHAT NEW REQUIREMENTS REGARDING ACCOUNTING AND FINANCIAL REPORTING FOR PENSION BENEFITS WILL GOVERNMENTS THAT PARTICIPATE IN COST-SHARING MULTIPLE-EMPLOYER PENSION PLANS BE IMPLEMENTING?

The Governmental Accounting Standards Board (GASB) approved Statement No. 68, *Accounting and Financial Reporting for Pensions*, in June 2012. Statement 68 significantly changes how governments measure and report the long-term obligations and annual costs associated with the pension benefits they provide. The Statement is available free of charge at www.gasb.org. A separate fact sheet describes the GASB's new pension standards and why they were issued.

2 WHAT IS A COST-SHARING MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN?

A *defined benefit* pension specifies the benefits to be provided to the employees after the end of their employment. By contrast, *defined contribution* pensions stipulate only the contributions to an active employee's account each year. A *cost-sharing multiple-employer plan* is one in which the participating government employers pool their assets and their obligations to provide defined benefit pensions—meaning that plan assets can be used to pay the pensions of the retirees of any participating employer. By contrast, the assets of the participating government employers in an *agent multiple-employer plan* are pooled for investment purposes but separate accounts are maintained for each individual employer. Governments participating in cost-sharing multiple-employer defined benefit pension plans are referred to as cost-sharing employers.

3 WHAT IS A NET PENSION LIABILITY AND WHY IS IT IMPORTANT?

To the extent that the cumulative long-term obligation to provide pension benefits of the participating governments in a cost-sharing plan (their total pension liability) is larger than the value of the assets available in the pension plan's trust to pay pension benefits, there is a net pension liability. Each participating cost-sharing government will report its proportionate share of that cumulative net pension liability in their own accrual accounting-based financial statements. This is significant because practically no information about an individual cost-sharing employer's pension obligation has previously been reported in the financial statements. But under Statement 68, the employer's proportionate share of the cumulative net pension liability will appear plainly on the face of the financial statements for the first time, along with a cost-sharing employer's other long-term liabilities.

4 HOW WILL THE AMOUNT OF THE TOTAL PENSION LIABILITY BE DETERMINED?

The new Statement describes the procedures for measuring the total pension liability, which essentially involves three steps:

1. Project total future pension benefit payments for current and former employees
2. Discount the projected benefit payments to their value at the time of the measurement (present value)

3. Attribute the present value of projected benefit payments to the periods when they were or will be earned—past and future.

5 HOW WILL FUTURE BENEFIT PAYMENTS BE PROJECTED?

The projection of future benefit payments is based on the terms of the plan and typically is performed by an actuary engaged by the pension plan. The actuary will use assumptions about relevant factors such as how long employees are expected to work for the participating governments, what their salaries are expected to be, and how long they are expected to collect benefits after retirement. The new Statement requires that all assumptions conform to the standards of the actuarial profession, unless otherwise specified by the GASB.

6 HOW WILL PROJECTED BENEFIT PAYMENTS BE DISCOUNTED?

Discounting projected benefit payments to their present value requires the use of a discount rate. Cost-sharing pension plans will be required to use the long-term expected rate of return on their investments or a single rate based on a combination of the long-term expected rate of return and a municipal bond index rate. At present, cost-sharing plans use only their long-term expected rate of return. To determine which rate to use, both the future benefit payments and the value of assets available in the plan for paying benefits (based primarily on actual contribution experience) will be projected.

At least in the initial years, projected plan assets related to current active and inactive employees can be expected to exceed projected benefit payments related to those employees—as long as this is true, discounting will be based on the long-term expected rate of return. This asset-based rate is appropriate because the earnings on the plan's investments reduce the amount that the cost-sharing employers will need to contribute to the plan.

However, if a point is reached when the projected benefit payments related to current active and inactive employees exceed the projected plan assets related to those employees—called the crossover point—then benefit payments projected to be made from that point forward will be discounted using an interest rate for 20- year tax exempt municipal bonds rated AA or higher (or an equivalent rating). This liability-based rate is appropriate because the plan no longer is expected to have sufficient assets related to those employees to produce investment income that will reduce how much the cost-sharing employers will have to contribute. The pension liability would then resemble a cost-sharing employer's outstanding debt and other typical long-term liabilities.

7 HOW WILL THE PRESENT VALUE OF PROJECTED BENEFIT PAYMENTS BE ATTRIBUTED TO PERIODS OF EMPLOYEE SERVICE?

Attribution to past and future periods of employee service is accomplished using an actuarial cost method. Statement 68 requires that all cost-sharing plans use one type of actuarial cost method—called entry age—and apply it only as a level percentage of payroll. Previously, cost-sharing pension plans had been allowed to select from six methods, each of which could be applied in two ways—as a level dollar amount each year or as a level percentage of payroll in each year. The previous variety of actuarial cost methods allowed seriously diminished the comparability of the information that governments reported about their pension obligations and costs.

The portion of the present value of projected benefit payments that is attributed to past periods of employee service is the total pension liability. The total pension liability minus the value of assets in the pension plan trust equals the cumulative net pension liability that will be divided among the participating cost-sharing employers to report in their own financial statements.

8 HOW WILL THE COST OF PENSIONS (PENSION EXPENSE) BE MEASURED FOR COST-SHARING EMPLOYERS?

A variety of factors contribute to changes in the net pension liability from year to year. For example, the earning of benefits each year increases the net pension liability, while investment earnings and contributions reduce it. Statement 68 requires that most causes of change in the net pension liability be included in pension expense immediately. However, changes resulting from certain causes will be introduced into pension expense over multiple periods. Because the net pension liability is the difference between the total pension liability and plan assets, the causes of change in the net pension liability can be organized into two groups—changes in the total pension liability and changes in plan assets.

The following changes in the total pension liability will be reported as pension expense in the year they occur (in other words, immediately): service cost (the value of new benefits earned each year), interest on the total pension liability, and changes in the benefit terms (improvements or reductions in benefits). Two causes of change in the total pension liability will be introduced into pension expense in increments over a period equal to the average remaining years of service of all members of the plan (both current employees and retirees): (1) the effects of a change in the economic and demographic factors used to project, discount, and attribute benefit payments; and (2) the difference between what those factors were assumed to be and what they actually turned out to be (called experience gains and losses).

In addition to contributions, changes in plan assets primarily result from two sources—the assumptions about investment earnings that are made when measuring the liability, and the difference between those assumptions and actual earnings. The assumed earnings reduce the amount of pension expense reported each year (in other words, immediately). The difference between assumed and actual returns will be introduced into expense in increments over five years (which is intended to roughly represent a market cycle).

The overall effect of the new requirements will be that pension expense will be reported significantly sooner than it has been for most governments. Under the prior standards, the effects of changes in benefit terms, changes in assumptions, experience gains and losses, and the difference between assumed and actual earnings were introduced into expense in increments over selected periods of up to 30 years. The average remaining years of service of plan members is likely to be considerably shorter than 30 years and result in earlier expense recognition.

9 HOW WILL INDIVIDUAL COST-SHARING EMPLOYERS DETERMINE THE PORTION OF THE CUMULATIVE NET PENSION LIABILITY, PENSION EXPENSE, AND PENSION-RELATED DEFERRALS THAT THEY SHOULD RECOGNIZE IN THEIR OWN FINANCIAL STATEMENTS?

The individual cost-sharing employers portion of the cumulative plan-wide pension amounts will be determined by measuring the cost-sharing employer against all of the governments participating in the plan in total. The Statement encourages the proportion to be determined as follows:

Employer's projected long-term contributions to the plan

divided by

Projected long-term contributions to the plan by all employers and other entities on behalf of those employers

However, the calculation may be based on other factors that are relevant to how contributions to the plan are determined. For instance, if a plan assesses a flat amount per active employee covered by the plan, a cost- sharing employer's percentage might be determined by dividing the employer's number of covered employees by the number of covered employees for all participating employers.

However the percentage is determined, the cumulative net pension liability, pension expense, and pension- related deferrals would be multiplied by the percentage to arrive at the "proportionate shares"—the amounts that the cost-sharing employer will report in its own financial statements.

It is possible that a cost-sharing employer's percentage may change from one year to the next. A cost-sharing employer will include in its pension expense the effect the changing percentage has on its proportionate shares of the cumulative net pension liability and pension-related deferrals. As with experience gains and losses, for example, the effect will be introduced into expense in increments over a period equal to the average remaining years of service of all members of the plan (both current employees and retirees).

10 HOW IS THE REPORTING OF THE LIABILITY, EXPENSE, AND DEFERRALS AFFECTED IF ANOTHER ENTITY IS RESPONSIBLE FOR A PORTION OF A COST-SHARING EMPLOYER'S PENSION OBLIGATION?

There are circumstances in which another entity (often governmental) is legally responsible for some or all of a cost-sharing employer's obligation to provide pension benefits. For example, a state government may be responsible for making all of the required contributions to a teacher retirement plan on behalf of local school districts. These circumstances, if they meet certain criteria spelled out in Statement 68, are called "special funding situations." The criteria, as well as the effect on accounting and financial reporting, are described in a separate fact sheet on Special Funding Situations.

11 APART FROM THE LIABILITY, EXPENSE, AND DEFERRALS REPORTED IN THE FINANCIAL STATEMENTS, WHAT OTHER INFORMATION WILL COST-SHARING EMPLOYERS PRESENT?

The notes to the financial statements of cost-sharing employers will be significantly enhanced by Statement 68 and will provide a more comprehensive and easier to understand picture of their pension obligations and costs. Cost-sharing employer notes will include, among other things:

- Descriptions of the pension plan and benefits provided
- Disclosure of significant assumptions employed in the measurement of the net pension liability
- Descriptions of benefit changes and changes in assumptions
- Disclosure of assumptions related to the discount rate
- Disclosure of what the employer's proportionate share of the net pension liability would be if a discount rate one percentage point higher and a rate one percentage point lower had been used
- The balances of deferred outflows of resources and deferred inflows of resources, presented by source (for example, experience gains and losses, or differences between assumed and actual investment earnings)
- The net amount of deferred inflows and outflows that will be recognized as pension expense and the amount of deferred outflows that will reduce the net pension liability—for each of the next five years and in the aggregate thereafter
- The employer's percentage of the collective net pension liability, how it was determined, and any change in the percentage since the previous measurement.

Cost-sharing employers will also present schedules of required supplementary information following the notes. The first schedule will contain information for each of the most recent 10 years, including the employers proportionate share of the collective net pension liability, the employer's payroll amount for current employees in the plan (employer's covered-employee payroll), a ratio of the employers proportionate share of the collective net pension liability divided by the employer's covered-employee payroll, and the pension plan's net position as a percentage of the total pension liability.

In addition, if a cost-sharing employer's contributions to the plan are based on statutory or contractual requirements, it will present a schedule of required supplementary information covering the 10 most recent years following the notes. The schedules will present the cost-sharing employer's statutorily or contractually required contribution, the employer's actual contributions, the difference between the actual and statutorily or contractually required contributions, and a ratio of the actual contributions divided by employer's covered-employee payroll.

12 WHEN WILL COST-SHARING EMPLOYERS BEGIN REPORTING THE PENSIONS UNDER THE NEW STANDARDS?

Cost-sharing employers are required to put the new standards into effect beginning in fiscal years ending June 30, 2015, and later. The GASB does, however, encourage employers to implement the new standards sooner.

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November 2013

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GASB Encourages Planning, Preparation, and Collaboration On New Pension Statements

With new public pension accounting and financial reporting standards set to take effect in 2013 and 2014, state and local public officials and pension plan administrators should take steps now to ensure that they are well prepared to implement those requirements.

The Governmental Accounting Standards Board (GASB), which issued the new standards, has identified several areas that public officials and plan administrators should consider as they prepare for implementation.

Those areas include:

- Pension funding policy
- Selection of assumptions
- Timing of measurements
- Timing of actuarial valuations
- Development of information for employer reporting.

The GASB recently approved Statement No. 67, *Financial Reporting for Pension Plans*, which applies to pension plans that administer pension benefits, and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which applies to governments that provide pension benefits to their employees. The new pension standards introduce a wide array of enhancements to financial reporting that will result in significant changes in the type and form of information collected and reported by pension plans and governmental employers.

To prepare for these upcoming financial reporting changes, the GASB encourages pension plans and governmental employers that have not yet begun the implementation process to become familiar with the new standards and to initiate discussions that address the key implementation issues highlighted below.

GASB Chairman Robert H. Attmore noted that "based on constituent feedback received during the Board's extensive public due process, the need for all parties involved to engage in significant coordination and collaboration became quite evident to the GASB. Due to the significant efforts that are needed to successfully implement the new pension standards, the Board extended the transition period for most governments to allow for a reasonable time for transition," the chairman added.

Challenges facing pension plans and employers that provide pensions through those plans may vary depending upon whether the plan is a single-employer, agent multiple-employer, or cost- sharing multiple-employer plan. However, certain common issues also exist for all types of plans and employers. Key areas to be considered by all types of plans and employers include the following:

- ***Funding policy.*** Statements 67 and 68 remove the direct link between measurements for funding purposes and measurement of pension expense for accounting and financial reporting purposes. For governments that have actuarially based funding policies, the measurement requirements of the new Statements for financial reporting purposes will include an actuarial valuation likely different from (and in addition to) the actuarial valuation that is used for funding purposes.

  For governments whose funding policies are defined relative to the requirements for determination of an annual required contribution (also referred to as an ARC) in Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, consideration will need to be given to whether funding policies should continue to be based on the Statements 25 and 27 ARC or whether they should be defined independently.

  Further, for certain measurements required by Statement 68—for example, determination of the discount rate to be used for purposes of measuring an employer's total pension liability (discussed further below)—the employer's funding policy has an impact, and a clearly expressed funding policy will facilitate implementation of those requirements.

- ***Selection of assumptions.*** Similar to the requirements of earlier pension standards, Statement 68 requires that when the same or similar measures are required to be reported by both the pension plan and employers that provide benefits through that plan, the assumptions used to determine those measures be the same. Therefore, coordination will be necessary between pension plans and employers when measurements of the net pension liability of the employers are made. Assumptions integral to the measurement of an employer's pension liability include the long-term expected rate of return on pension plan investments, which plays a potentially significant role in the determination of the discount rate.

- ***Timing of measurements.*** To meet the requirements of the new Statements, single-employer pension plans, cost-sharing multiple-employer pension plans, and single, agent, and cost- sharing employers will need to report information about the net pension liabilities of the employers. For pension plans that are required to present information about the liabilities of the employers, the net pension liability is required to be measured as of the end of the pension plan's fiscal year. Employers, however, are provided with additional flexibility with regard to the "as of" (or "measurement") date of the net pension liability reported in its financial statements each period. That is, an employer may report a pension liability measured between the end of the employer's prior fiscal year and its current fiscal year-end (for example, as of the pension plan's fiscal year-end). Because information about pension plan net position is needed to measure the employer's net pension liability, in pension plans in which the same fiscal year-end is not shared among the employers and the plan itself, coordination of the employers' measurement date will be necessary.
- ***Timing of actuarial valuations.*** Statements 67 and 68 require that actuarial valuations for financial reporting purposes be prepared at least every two years; however, the timing of the actuarial valuation relative to the fiscal year-end for which information based on the results of that valuation is reported might differ for plans and employers. For pension plans, the actuarial valuation date can be no more than 24 months prior to the plan's fiscal year-end, and for employers, the actuarial valuation date can be no more than 30 months earlier than the employer's fiscal year-end. In circumstances in which pension plan and employer fiscal year-ends are different, attention to the timing of the actuarial valuation date relative to those fiscal year-ends will be necessary to ensure that the actuarial valuation date, in conjunction with the measurement date (discussed above), will fall within the timing requirements of the new Statements.
- ***Development of information for employer reporting.*** Statement 68 requires some employers to report certain information that also is required by Statement 67 to be reported by the pension plan (for example, single employers will disclose information about the sources of change in the net pension liability in the current period—information that also will be presented in a schedule of required supplementary information by the single-employer pension plan). Other information that will be reported by certain employers will be derived from information that will be reported by the pension plan but will not itself be reported by the pension plan (for example, single-employer and cost-sharing employer pension expense). Key considerations relative to the information needed for employer financial statements will be which entity will prepare the information, which entity will incur the cost to develop this information, and the roles that each entity's auditors will play in providing appropriate assurance on that information.

Additional considerations that might be primarily relevant to cost-sharing pension plans and employers include the following:

- ***Information to determine employers' proportionate shares.*** Financial reporting by cost- sharing employers will require the determination of each employer's proportionate share of the pension liability associated with all employees provided with benefits through the pension plan (the collective net pension liability). Statement 68 encourages the use of each employer's projected long-term relative share of contributions to the plan as the basis for establishing each employer's proportion for this purpose. However, the Statement also provides flexibility, noting that any measure associated with the manner in which contributions are assessed may be used as the basis for an employer's proportion. Because an employer's proportion is a measure of its contribution responsibility relative to all contributing governments, regardless of the basis that is selected, information about the plan as a whole will be needed to meet the Statement 68 requirements.

  As discussed more broadly above, pension plans and employers, in consultation with the plan's actuary and the plan and employer auditors, also will need to evaluate the role that the pension plan and its actuary will take in several areas, including determining each employer's proportion, measurement of collective pension expense and collective deferred outflows of resources and deferred inflows of resources, and calculations that are necessary for each employer individually. (For example, each employer is required to identify the effects of changes in its individual proportion from period to period.) If information for employer reporting purposes will be provided by the pension plan and its actuary, another key consideration will be the establishment of procedures that will support the needs of auditors of the employers' financial statements to ensure that they can express an opinion on that information.

In circumstances in which the pension plan does not currently interact directly with the employers (for example, when a separate intermediary agency coordinates collection of contributions from individual employers and the transmission of those contributions to the pension plan), the pension plan might not have information to identify the activities of any one individual employer. Coordination among the pension plan, intermediaries, and individual employers will be necessary to ensure that information is available to employers to meet the new requirements.

- ***Identification of the reporting responsibility for pensions in circumstances in which a nonemployer entity is involved.*** Statement 68 differentiates financial reporting requirements for employers and nonemployer entities depending upon the form the nonemployer entity's involvement takes. In certain circumstances in which a nonemployer entity has a legal requirement to make contributions to support pensions, the nonemployer entity will be required to recognize a proportionate share of the employer's pension liability, and the employer's recognized liability will be reduced. These situations will need to be evaluated to appropriately classify the arrangements for financial reporting purposes.

Additional information about the new pension Statements, including a series of fact sheets, the full text of the documents, an article providing a high-level overview of key provisions of the Statements, and information on how to order hard copies, is available on the GASB website, gasb.org.

MEMORANDUM

TO: **SIB Audit Committee**

FROM: **Fay Kopp, Chief Retirement Officer**

DATE: **February 21, 2014**

SUBJ: **Audit Supervisor Vacancy Update**

The Audit Supervisor position became vacant in July 2013. After discussions with the Audit Committee in September and November, and the new Executive Director/CIO in December, the position was posted on December 31, 2013. It was advertised in the four major ND newspapers on January 12 and 19, and application closing date was January 24, 2014. Unfortunately, there was only one application for the position at the closing date, and the individual was not qualified.

Consequently, the position was reposted, hiring salary range was increased, and the application closing date was extended to February 10, 2014 (vacancy announcement attached). At the closing date, there were only three applications for the position, of which two are not qualified.

To expand the size of the applicant pool, we decided to again re-post the position. Since the position was first posted in December, the State has transitioned to a new online application system (Peoplesoft Recruiting Solutions). I am working with State HRMS to utilize this new system with the Audit Supervisor position, and we plan to again advertise in March. Chairman Dorwart also mentioned using the IIA (Institute of Internal Auditors) website/vacancy listing service, so we will check into that as well.

We will continue our recruiting efforts with the goal of finding the right individual to fill this important position.

Enclosure

Vacancy Announcement

Auditor III (Supervisor Of Audit Services) *READVERTISED*
ND Retirement And Investment Office (NDRIO)

Location: Bismarck, ND
Salary:$3,899-$5,198 per month*
Closing Date: February 10, 2014 at 5:00 pm
Position Number:1901200
Requisition Number: None
Status: Full-time, Regular
Type of Recruitment: Internal/External
Date Posted to Web: Web December 31, 2013

Minimum Qualifications:

Requires a bachelor's degree in accounting, business administration, public administration, statistics, economics or other related area with coursework in accounting and three years of auditing experience that includes functioning as a lead auditor.

Must have strong knowledge of auditing and accounting principles, concepts and methodology and must possess strong analytical skills. Must also be highly organized and have the ability to work independently and with others.

Preferred Qualifications:

Effective oral, written, and interpersonal communication skills strongly preferred.

Relevant audit certification such as Certified Internal Auditor or Certified Public Accountant strongly desired.

Preference will be given to applicants who have work experience in:

- Monitoring compliance with governmental laws, rules, policies, procedures and guidelines,
- Working with employee benefit plans especially public sector retirement plans, and
- Planning and managing complex audits.

Application Procedures:

Posting has been extended to expand candidate pool.

Interested applicants must mail, fax, or email a completed State of ND Application for Employment form (SFN10950), resume, and **cover letter detailing how the applicant meets the minimum and preferred qualifications** to:

Lynn Hart
Human Resource Management Services
600 E. Boulevard Ave., Dept. 113
Bismarck, ND 58505-0120
701-328-1016
701-328-14759 (fax)
lyhart@nd.gov (email)

Application materials must be received at HRMS by 5:00 p.m. on the closing date. Application forms are available from the ND Retirement and Investment Office, any ND Job Service, Human Resource Management Services, or on the web at www.nd.gov/hrms.

Applicants who are residents of North Dakota and eligible to claim veteran's preference must include a copy of Form DD-214. Claims for disabled veteran's preference must also include a current statement of disabled status from the U.S. Department of Veterans Affairs.

Contact NDRIO at (701) 328-9885 or TTY 800-366-6888 for more information or accommodation or assistance in the application or interview process.

A criminal history record check, including fingerprinting, will be conducted on the successful candidate prior to hiring per NDCC 12-60-24.

ND Relay Number: 1-800-366-6888

Summary of Work:

The North Dakota Retirement and Investment Office (RIO) http://www.nd.gov/rio coordinates the activities of the State Investment Board (SIB) and the Teachers' Fund for Retirement (TFFR).

- Develop and execute a comprehensive, practical program of audit coverage consistent with Retirement and Investment Office (RIO) goals, administrative structure, and audit standards, under the direction of the SIB Audit Committee and RIO Executive Management.
  - Coordinate Audit Committee meetings.
  - Develop and update audit charter.
  - Develop and monitor audit work plan and time budget.

- Plan, manage, and conduct audits and compliance reviews to determine compliance with applicable laws, rules, policies, plans, procedures, and controls.
  - Conduct preliminary audit research and planning.
  - Determine and apply audit tests.
  - Examine documents to determine accuracy and compliance with administrative, legal, and administrative requirements.
  - Prepare supporting documents and schedules.
  - Prepare audit reports, and present findings and recommendations to RIO Executive Management and Audit Committee.
  - Document, evaluate effectiveness, and update audit procedures.
  - Manage, establish schedule, and perform risk assessment of TFFR employer compliance audit program.

- Audits and compliance reviews performed by Audit Services include, but are not limited to:
  - Board and Committee compliance with SIB governance policies.
  - TFFR employer reporting of salaries and contributions.
  - TFFR claims payments and processes.
  - TFFR member account maintenance.
  - Other agency or program audits or reviews as determined by Audit Services.
  - Special audits at the direction of the Audit Committee or RIO Executive Management.

- Supervise Audit Services Staff
  - Supervise and evaluate the work activities of audit services staff
  - Assist with recruiting, hiring, and training.
  - Plan and assign work duties.

RIO has the following benefits to offer:

- *ND State fully-paid family benefit package http://www.nd.gov/hrms/jobs/benefits.aspx
- Flexible work schedule
- Small and casual work environment
- Salary increase (after successful completion of a six-month probationary period)
- In-service training
- Continuing education - workshops and seminars
- Tuition reimbursement for work related classes

As employers, the State of North Dakota and political subdivisions prohibit smoking in all places of state and political subdivision employment in accordance with N.D.C.C. § 23-12-10.

Equal Opportunity Employer

The State of North Dakota and this hiring agency do not discriminate on the basis of race, color, national origin, sex, genetics, religion, age, or disability in employment or the provision of services, and complies with the provisions of the North Dakota Human Rights Act.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Staffing Update

February 21, 2014

During the past three months, the RIO team has been successful in filling three vacant positions, promoting from within to eliminate a future vacancy in Information Technology and posting for the Audit Supervisor and IT Coordinator positions. We have also revised our organizational chart to more accurately reflect observed reporting lines from a functional perspective.

The RIO Executive Team understands the importance of proper staffing levels as the success of the Agency is critically dependent on the interaction and effectiveness of our outstanding staff.

- David Hunter joined RIO as Executive Director/CIO on December 2, 2013.

- Cody Schmidt joined RIO as Compliance Officer on December 9, 2013.

- Connie Flanagan rejoined RIO as Fiscal and Investment Operations Manager on January 21, 2014.

- Gary Vetter announced his retirement as RIO's Information Technology Supervisor. Mr. Vetter's last day will be March 31, 2014.

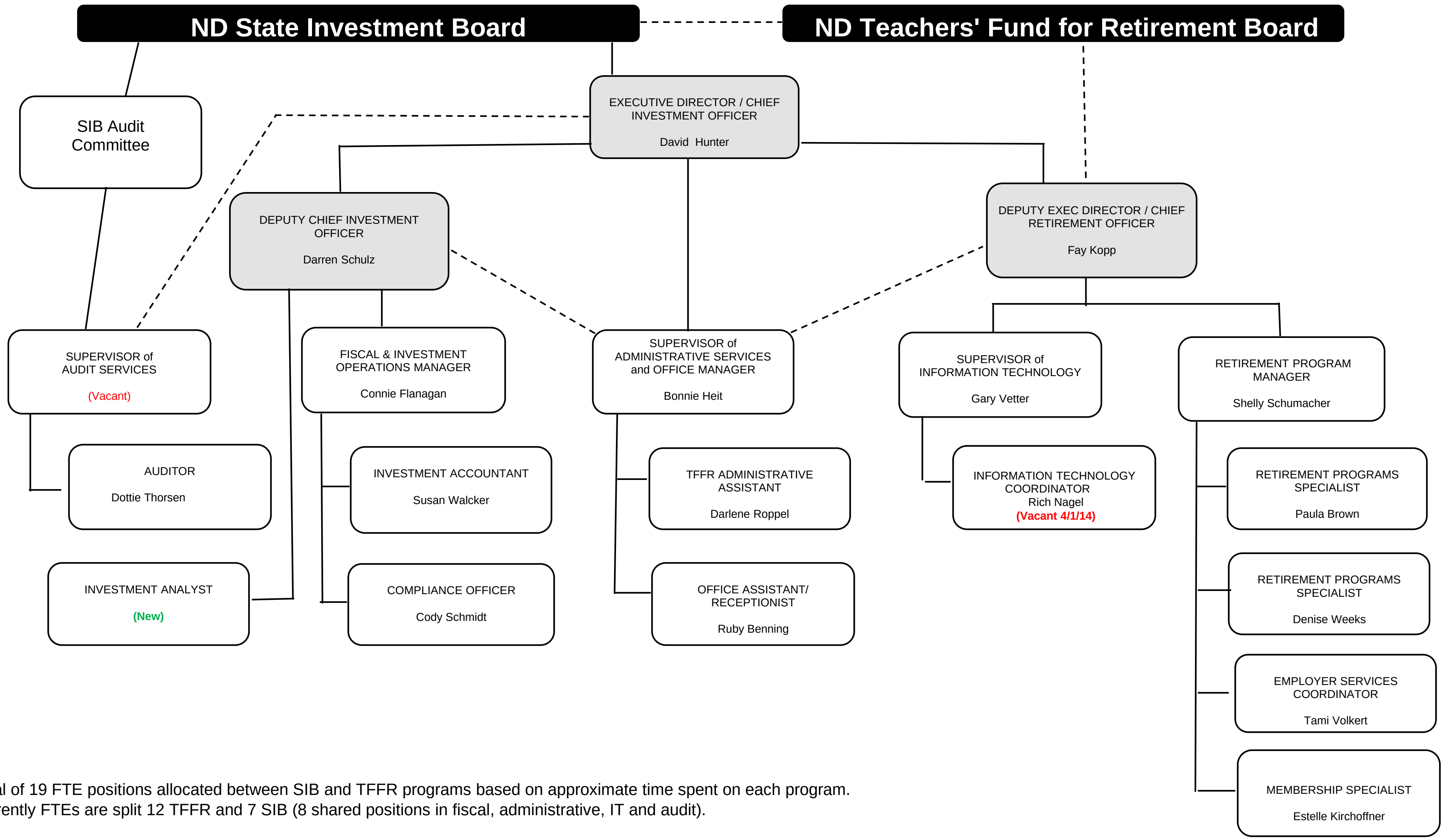
- Rich Nagel, RIO's current IT Coordinator, will be promoted to RIO's Information Technology Supervisor effective April 1, 2014.

- RIO's IT Coordinator position, which will be vacant as a result of Rich's promotion, was posted on February 20, and will be advertised on February 23 and March 2. Application closing date is March 10.

- RIO's Audit Supervisor position was posted on December 31, 2013, and advertised on January 12 and 19. To expand the applicant pool, it will be reposted and readvertised in March 2014.

- The Investment Analyst position will be posted once an organizational review of investment and fiscal division duties is completed.

ND Retirement and Investment Office (RIO)
Agency Organizational Chart - January 2014



Total of 19 FTE positions allocated between SIB and TFFR programs based on approximate time spent on each program.
Currently FTEs are split 12 TFFR and 7 SIB (8 shared positions in fiscal, administrative, IT and audit).