



STATE OF TENNESSEE
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DEPARTMENT OF AUDIT
DIVISION OF LOCAL GOVERNMENT AUDIT

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MEMORANDUM

TO: CPA Firms

FROM: Jerry E. Durham, CPA, CGFM, CFE
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Division of Local Government Audit

SUBJECT: Pension Audit Update

This memo is to update you on the latest information on the Pension Audits under GASB 68 and GASB 71.

As most of you are aware, pension census data has been sent to some local governments. However, to date, many governments (about 250) have not replied to the TCRS's request to confirm the government's email address. TCRS did not want to send the census data directly to CPA Firms because of personally identifiable information that is included in the in the data. TCRS did not want to send the information to the local governments without an accurate email address. I have attached a list of the governments that received the original email. Local governments need to respond to TCRS if they have not done so already.

CPA Firms should obtain the census data from the local government or encourage each government to respond to the TCRS email so the census data can be sent. A sample should be selected from the census data and tested for both accuracy and completeness. These are two separate tests. These two tests are described in detail in the previous memo which is attached to this memo. This will not be as simple as it should be if more than one department/fund are reported together. We are working with TCRS to get a more detailed breakdown but that report has been delayed thus far. We recommend that you do not wait for the detailed breakdown. Keep in mind that the School System will have some employees under the Agent Plan and some under the Cost Sharing Plan. In general, teachers are in the Cost Sharing Plan and other school employees (e.g. administrative staff) are in the Agent Plan. Census data should be tested for all county and school Agent Plan employees. **Shelby County is the only county that will need to be tested by a CPA Firm for the School Cost Sharing Plan.** Census data, for all other School Cost Sharing Plans that require testing, will be audited by the Division of Local Government Audit.

If the local government never receives the census data directly from TCRS, as an alternative, the sample could be selected from the TCRS Concord System provided a report can be generated of those active employees listed in the Concord System. The Concord system data has been reconciled to the census data provided to the Actuary, therefore; the information in the Concord System could theoretically be utilized if detailed information can be obtained from the Concord System. However, the data will not be broken down by department.

The TCRS census data will more than likely contain some errors or missing information. We analyzed some of the data and found several questionable items. We asked TCRS about these items and received the following responses:

1. Question: Is the data as of June 30, 2014? TCRS Answer: **Yes.**
2. Question: Under Gender there is a code U. What does that represent? TCRS Answer: **Unknown. Our records did not have a gender code (i.e., M or F). If we were unable to provide gender, the actuary assumes female (more conservative). Very little impact.**
3. Question: There are several blank entries for DOB, is this normal? TCRS Answer: **The employer did not report a DOB. In this instance, the actuary assumes the age at entry and backs into a DOB. For example, teachers average entry age is 31. So the actuary assumes the DOB is 31 years prior to date of membership. Very little impact.**
4. Question: There are several SSN numbers that are shorter than 9 characters. Some are because of a leading zero, but some are missing a lot of numbers. Is this normal? TCRS Answer: **SSN that are shorter than 9 characters should be due to leading zeroes. There may be a few instances where the SSN reported to TCRS was not complete.**

When testing Census Data, you are only required to obtain audit evidence for the one year being tested. For example, one year's salary and one year of service credit. Remember, the year we are testing for all Census Data elements is July 1, 2013 to June 30, 2014.

Once the Census Data has been tested, auditors should form an opinion about the reliability of the data for determining the Net Pension Liability, Pension Expense, and related Deferred Outflows and Inflows. Your Census Data test work relates directly to the fair presentation of these amounts as determined by the Actuary. **You do not have to submit your work to the Division of Local Government Audit. You can perform the Census Data testing within the normal time frame of your audit. In other words, there is no requirement to perform the work now as opposed to the normal time frame for your audit.** If you cannot form an opinion about the reliability of the Census Data, you will need to decide whether or not to disclaim, give an adverse opinion on the financial statements as a whole, or otherwise modify your opinion.

We made inquiries of TCRS about the remaining required information such as the Actuarial Certification Letter, the Actuaries Report, Notes to the Financial Statements, RSI, and Journal Entries. The latest information we have is that this information should be issued by the end of June.

We realized this first year was going to be messy and difficult. It has exceeded our expectations. Thanks for your cooperation.

