

STATE OF NORTH CAROLINA
Office of the State Auditor



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MEMORANDUM

To: Certified Public Accounting Firms

From: State Auditor Beth A. Wood, CPA *BW*

Date: April 8, 2019

Re: Testing of Census Data for Cost-Sharing Multiple-Employer Defined Benefit Plans

The Governmental Accounting Standards Board (GASB) issued statements related to pensions and other postemployment benefits (OPEB) (i.e., GASB Statements No. 67, 68, 71, 73, 74, 75, 78, and 82). As you are aware, these standards change the reporting requirements for most pension and OPEB plans including the Teachers' and State Employees' Retirement System (TSERS) and the Local Government Employees' Retirement System (LGERS) plans, as well as the Retiree Health Benefit Fund (Retiree Health) and Disability Income Plan of North Carolina (DIPNC) offered to eligible members of the TSERS plan.

The AICPA State and Local Government Expert Panel (SLGEP) has issued a Pension Whitepaper Series that includes non-authoritative guidance related to these new pension standards. In February 2014, the AICPA SLGEP issued the whitepaper titled "Single-Employer and Cost-Sharing Multiple-Employer Plans: Issues Associated with Testing Census Data in an Audit of Financial Statements." In addition to the whitepaper, the AICPA State and Local Governments Audit and Accounting Guide (March 2018) discusses the auditor's responsibility related to the census data provided by employers to the plan. The Office of the State Auditor (OSA) audits pension and OPEB plans included in the State's Comprehensive Annual Financial Report (CAFR) in order to issue an opinion on the State's financial statements and as such is the plan auditor for the above mentioned plans.

North Carolina's local government's financial statements are audited annually by independent CPAs, therefore the local auditors are the employer auditors as referred to in the pension and OPEB standards. Implementation of these standards will require coordination between the plan and employer auditors. Because the local auditors are performing the employer financial statement audit, we believe it would be more efficient to have these auditors provide assistance in performing audit procedures related to census data at the local level for the current fiscal year ending June 30, 2019.

An essential part of the implementation process for GASB Statements No. 67, 68, 74 and 75 is the testing of the pension census data at the employer participant level. We have selected

a sample of employer participants in both the TSERS and the LGERS. You are receiving this notification because your client has been selected. We are requesting that you conduct an examination engagement in accordance with AT-C sections 105 and 205. The engagement should be designed to obtain reasonable assurance that the completeness and accuracy of the census data is free from material misstatement as reported to the State Treasurer for the calendar year ended December 31, 2018 (measurement date). The results should be provided to us in the form of an attestation opinion that we will use as substantive evidence to support our audit opinion on the pension plans. An example opinion is attached (see Attachment A). The results are due to the Office of State Auditor by October 1, 2019.

Assurance about whether the completeness and accuracy of the census data is free from material misstatement must be obtained. It not only impacts the State Auditor's opinion on the plans' financial statements but could impact the State Auditor's opinion on the pension and OPEB employer allocation schedules. The allocation schedules are necessary to record the pension and OPEB liability or asset on the employers' statements for the fiscal year ending June 30, 2020. Local government auditors will rely on the State Auditor's opinion for the allocation schedules. Thus, the local government auditors' (local auditors) opinion on participant employers' financial statements could be impacted.

Along with the AICPA State and Local Governments Audit and Accounting Guide, the AICPA's whitepaper "Single-Employer and Cost-Sharing Multiple-Employer Plans: Issues Associated with Testing Census Data in an Audit of Financial Statements" provides guidance on procedures that should be performed at both the plan and the participant employers to assure the underlying census data for certain financial statement elements of the plan are materially correct. To assist local auditors in determining the objectives and procedures, we have also provided some suggested guidance (see Attachment B). The attached is not intended to be all-inclusive or a listing of required procedures. Local auditors will need to exercise professional judgment in determining the most appropriate and cost effective procedures given the environment or circumstance, and requirements of the standards contained in **AT-C sections 105 and 205**. Therefore, the auditor should not consider the attached guidance to be a "safe harbor" for identifying the audit procedures to be applied.

Attachments (2)

Attachment A

The following is a standard examination report (example 4 from AT-C section 205). This report pertains to subject matter for which suitable criteria exist and are available to all users through inclusion in a clear manner in the presentation of the subject matter. A written assertion must be obtained from the responsible party.

All data in blue font should be updated accordingly

Independent Accountant's Report

[Appropriate Addressee]

We have examined the employee census data and related underlying payroll records of XYZ Government for the year ended December 31, 20XX to determine that the employee census data provided to the {Teachers' and State Employees' Retirement System or Local Governmental Employees' Retirement System} is complete and accurate based on the criteria set by the Retirement System's Handbook revised January 2018. XYZ Government's management is responsible for the employee census data. Our responsibility is to express an opinion the employee census data based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the employee census data is in accordance with the criteria set by the Retirement System's Handbook revised January 2018, in all material respects. An examination involves performing procedures to obtain evidence about the completeness and accuracy of the employee census data. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the employee census data, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

[Include a description of significant inherent limitations, if any, associated with the measurement or evaluation of the subject matter against the criteria.]

[Additional paragraph(s) may be added to emphasize certain matters relating to the attest engagement or the assertion.]

In our opinion, the employee census data for the year ended December 31, 20XX referred to above, is presented complete and accurate based on the criteria set by the Retirement System's Handbook revised January 2018, in all material respects.

This report is intended solely for the information and use of XYZ Government's management, the North Carolina Department of State Treasurer, and the North Carolina Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

[Signature]
[City & State]
[Date]

Attachment B

I. Introduction

The State Auditor's Office has prepared this document to provide **suggested guidance** on the objectives and procedures **that may be utilized** for this attestation service. **It is not intended to be all-inclusive or a listing of required procedures.** Auditors will **need to exercise judgment** in determining the most appropriate and cost effective procedures given the environment or circumstance and must ensure their procedures are in accordance with the attestation standards for examination engagements at AT-C sections 105 and 205. In other words, auditor judgment will be necessary to determine whether the suggested audit procedures are sufficient to achieve the audit objectives or whether alternative audit procedures are needed. Therefore, the auditor should **not consider this guidance to be a "safe harbor"** for identifying the audit procedures to apply in a particular engagement.

The auditor should develop a plan that includes the following:

- The nature, timing, and extent of planned risk assessment procedures
- The nature, timing, and extent of planned further audit procedures
- Other planned procedures that are required to be carried out so that the engagement complies with the attestation standards.

An important part of the auditor's risk assessment procedures is to obtain an understanding of the internal control process in place and evaluate its effectiveness in order to assess risks. In examining internal control, auditors will seek to determine whether the employer has established effective procedures to reduce the chance of errors or fraud. This includes evaluating the design of those controls relevant to the subject matter and determining whether they have been implemented by performing procedures in addition to inquiry of the personnel responsible.

In developing an audit strategy, the auditor should design further audit procedures whose nature, timing, and extent are based on, and responsive to, the assessed risks of material misstatement. Further audit procedures include, but are not limited to, tests of controls, analytical procedures, tests of details, and sampling. If test results indicate that controls are effective, the auditor may be able to reduce the level of substantive tests to be performed as a basis for the opinion. It may be more efficient for the auditor to take a control based approach to testing census data and the underlying payroll records of the employer when management has effective processes and controls over the census data.

II. Overall Engagement Objective

To verify that the employee census data (or participant data) reported by employers to the Department of State Treasurer's Retirement Systems Division for the calendar year based on the criteria set by the Retirement System's Handbook revised January 2018 is complete and accurate in all material respects.

III. Suggested Control Objectives and Procedures

Each employer has access to the data files they have loaded/provided the State Treasurer. Thus the employer should be able to access the Online Retirement Benefits through Integrated Technology (ORBIT) system and provide the auditor with a copy of the employee data they reported. Guidance for employers regarding ORBIT information and reporting is available on the Department of State Treasurer website at:

<https://www.nctreasurer.com/Retirement-and-Savings/For-Government-Employers/Pages/Payroll-and-Reporting-in-ORBIT.aspx>

In addition, employers have access to view individual participant data that is recorded in the ORBIT system.

Note: ORBIT is a system maintained by the Department of State Treasurer that grants employers, employees and retirees online access to retirement accounts and transactions. Each employer is responsible for:

- 1) *Enrolling all new eligible members into the Retirement System by introducing Employee Self Service to all new members.*
 - 2) *Submitting the required Employee and Employer contributions monthly along with the monthly ORBIT payroll report.*
 - 3) *Certifying employee termination information on the monthly ORBIT payroll report.*
 - 4) *Reporting retirees who return to work as State Retirees Subject to Restrictions (STRS) or Local Retirees Subject to Restrictions (LOCRS) on the monthly ORBIT payroll report.*
- 1) **Audit Objective** – Determine that employers include all eligible employees in the monthly data submitted to the State Treasurer (completeness/no eligible employee is prevented from enrolling in the plan).

Suggested Audit Procedures – Internal Control

- Obtain and review plan documents to understand the official rules and regulations of the retirement system (Plan) regarding eligibility.
- Obtain an understanding of the processes and controls used by the employer to support the completeness of eligible employees reported to the State Treasurer.
- Evaluate the design of those controls relevant to ensuring that all eligible employees are included and verify that those controls have been implemented.

Suggested Audit Procedures – Substantive

The nature, timing, and extent of substantive procedures to be performed on the census data and the underlying payroll records **will depend on the assessed risk** of material misstatement and whether management has effective processes in place.

- Select a sample of employees reported to the retirement system. Verify that those reported in the Online Retirement Benefits through Integrated Technology (ORBIT) are eligible per the system requirements.
- Select a sample of employees who are not reported in ORBIT. Examine selected participants employment records (including personnel files and support for hours worked during the plan year) to determine whether they have been erroneously excluded from the plan.

Note: Consider the risk that the employer is treating an employee as a contract worker vs. a full-time, eligible employee.

- Compare employer current year participant data submitted to the State Treasurer to underlying payroll records and the prior year participant data file. Review comparison and/or scan the files for any unexpected differences.

Note: Auditor may consider significant changes or obvious errors in employees, hours worked, pay, age, gender, etc. as an unexpected difference. For example, the auditor may consider scanning for large variances between the prior and current year and between the payroll records vs ORBIT data file.

- 2) **Audit Objective** – Determine whether all employees being reported to the State Treasurer are eligible to participate in the pension plan.

Suggested Audit Procedures – Internal Control

- Obtain and review plan documents to understand the official rules and regulations of the Plan regarding eligibility.
- Obtain an understanding of the processes and controls used by the employer to determine whether employees are eligible to participate in the pension plan.
- Evaluate the design of those controls relevant to ensuring all reported employees were eligible to participate in the plan and verify that those controls have been implemented.

Note: It is the employer's responsibility to determine whether their employees are eligible to participate in the retirement system.

Suggested Audit Procedures – Substantive

The nature, timing, and extent of substantive procedures to be performed on the census data and the underlying payroll records **will depend on the assessed risk** of material misstatement and whether management has effective processes in place.

- Select a sample of active, disabled, and terminated participants reported in ORBIT. Examine selected participants' employment records (including personnel files and support for hours worked during the plan year) to determine whether employees have been appropriately included in the plan.

Note: Auditor may also need to review support of hours worked during the Plan year. For example: The Local Governmental Employees' Retirement System allows employees to participate if they are employed by a participating unit in a regular

position that requires 1,000 hours or more of service per year. Similarly, the Teachers' and State Employees' Retirement System requires permanent employees to work at least 30 hours per week for nine months per year.

- Compare employer current year participant data submitted to the State Treasurer to underlying payroll records and/or the prior year participant data file. Review comparison and/or scan the files for any unexpected differences.

Note: Auditor may consider significant changes or obvious errors in employees, hours worked, pay, age, gender, etc. as an unexpected difference. For example, an unexpected difference may be a significant increase or decrease in the number of eligible or ineligible employees.

- 3) Audit Objective** – Determine whether the compensation reported to the pension plan is accurate and eligible to be counted as a basis for retirement benefits.

Suggested Audit Procedures – Internal Control

- Obtain and review plan documents to understand the official rules and regulations of the Plan regarding eligible retirement compensation.
- Obtain an understanding of the processes and controls used by the employer to determine whether employee compensation reported to the pension plan is accurate and eligible to be counted as a basis for retirement benefits.
- Evaluate the design of those controls relevant to ensuring whether the compensation reported to the pension plan is accurate and eligible to be counted as a basis for retirement benefits based on the criteria set by the Retirement System's Handbook, and verify that the controls have been implemented.

Suggested Audit Procedures – Substantive

The nature, timing, and extent of substantive procedures to be performed on the census data and the underlying payroll records **will depend on the assessed risk** of material misstatement and whether management has effective processes in place.

- For selected pay periods or the entire year, select a sample of employees and agree (or recalculate) the compensation (total gross pay) reported to the State Treasurer as follows:
 - a) If the employee is on salary, agree the pay rate to the appropriate supporting employee/HR records.
 - b) If the employee is paid on an hourly basis, agree wage rates to the appropriate supporting employee/HR records. Also, for a selected time period trace and agree time cards to appropriate supporting documentation.
- Select a sample of terminated employees. Examine payroll records to ensure final payments were eligible to be counted as a basis for retirement benefits.

Note: Final payment for unused vacation leave and/or prorated longevity may be counted as a basis for retirement benefits. However, final payments for unused sick

leave or reimbursements for expenses should not be included as a basis for retirement benefits.

- Select a sample of employees. Scan his/her monthly salary information reported in ORBIT to determine whether there are significant or unusual pay spikes.
- Compare employer current year participant data submitted to the State Treasurer to underlying payroll records and/or the prior year participant data file. Review comparison and/or scan the files for any unexpected differences.

Note: Auditor may consider significant changes or obvious errors in employees, hours worked, pay, age, gender, etc. as an unexpected difference. For example, an unexpected difference may be a significant increase or decrease in the reported compensation amount from prior to current year or between the underlying payroll records in comparison to what was reported in ORBIT.

- 4) Audit Objective** – Determine whether employee demographic data (specifically gender and birth date) reported to the pension plan is accurate.

Suggested Audit Procedures – Internal Control

- Obtain an understanding of the processes and controls used by the employer to determine whether employee demographic data reported to the pension plan is accurate.
- Evaluate the design of those controls relevant to ensure employee demographic data is recorded and reported accurately, and verify that those controls are in place.

Suggested Audit Procedures – Substantive

The nature, timing, and extent of substantive procedures to be performed on the census data and the underlying payroll records **will depend on the assessed risk** of material misstatement and whether management has effective processes in place.

- Select a sample of employees. Agree demographic data reported in ORBIT to the personnel files.
- Reconcile aggregate data, such as number of employees and covered compensation, per the employer records/payroll reports to amounts shown in ORBIT.
- Compare employer current year participant data submitted to the State Treasurer to underlying payroll records and/or the prior year participant data file. Review comparison and/or scan the files for any unexpected differences.

Note: Auditor may consider significant changes or obvious errors in employees, hours worked, pay, age, gender, etc. as an unexpected difference. For example, the auditor may consider scanning for blank fields for birth dates, gender, etc., birth dates entered as "99/99/9999"; or birth dates indicating an age that is too old or too young for reasonable employment.

Source of Governing Requirements

The defined benefit public employee retirement plans administered by the State were established by the following general statutes:

- *Teachers' and State Employees' Retirement System – NC General Statute 135 Article 1*
- *Local Governmental Employees' Retirement System – NC General Statute 128 Article 3*

In addition, the State Treasurer has issued the following guidance documents:

- *Teachers' and State Employees' Retirement System Employer Manual Revised January 2018*
- *Local Governmental Employees' Retirement System Employer Manual Revised January 2018*

Note: You can view the North Carolina Retirement Systems' Retirement Handbooks noted above at www.nctreasurer.com → State and Local Government → Local Fiscal Management → Audit and Accounting Resources → Pension-Standards

https://www.nctreasurer.com/slq/lfm/audit_acct/Pages/Pension-Standards.aspx