

NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



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TO: Independent Auditors Testing TSERS and LGERS Census Data and
Clients

FROM: Susan McCullen, Director, Fiscal Management Section

DATE: April 22, 2021

An essential part of the compliance process for GASB Statements 67 and 68 is the testing of the pension census data at the employer participant level. The Office of State Auditor (OSA) selected a sample of employer participants in both the Teachers' and State Employees' Retirement System (TSERS) and the Local Government Employees' Retirement System (LGERS) and has asked those units and their independent auditors to provide assurance to OSA on the accuracy of certain elements of the census data.

As an attest engagement, this work falls under the AT-C 105 and 205 standards. The objective of this engagement is to provide assurance to OSA and the Department of State Treasurer (DST) that the census data being provided by employers via ORBIT is **materially** correct. In addition, keep in mind that every unit that is a member of either LGERS or TSERS will need some level of comfort that their census data is materially correct because this data will be used, in part, by the State's actuaries to determine the net pension asset/liability that will then be apportioned to the employer participants in these plans. Units that were not selected for testing this year will eventually be selected as we go through the sample cycle (except for very small units). However, keep in mind that in order for an auditor to issue an unmodified financial statement opinion on a participant employer, he or she will have to do work to assure themselves that ORBIT data is materially correct as this data is essential to the net pension asset/liability calculation and related allocation to employers.

The attest should cover the calendar year period ended December 31, 2020. This period is consistent with actuarial report year that will be used to report under Statement 67 as of June 30, 2021. It also is consistent with the actuarial report year that will be used to generate the data for reporting under GASB Statement 68 at June 30, 2022. [The actuarial report will be as of December 31, 2020, with the data rolled forward to June 30, 2021 (the measurement date). GASB requires the measurement date be no more than 12 months prior to the financial statement date.]

As with any auditing and reporting issue, materiality is a consideration. For this engagement materiality should be determined at the local employer level and not the plan as a whole. For purposes of the attest, eligible payroll (i.e. the total salaries reported in ORBIT) could be considered when determining materiality levels.

Employees' salaries are a big factor in determining the net pension asset/liability and the percentage of asset/liability calculations/allocation to employers will be based on projected covered payroll. Thus, it seems logical to use covered payroll to determine your materiality levels.

The attest engagement focuses on the internal controls surrounding the ORBIT data gathering and input process as well as several specific pieces of census data:

- **Eligibility** – are all employees that are enrolled in ORBIT eligible to be in the plan and are all eligible workers appropriately enrolled?
- **Compensation** – is qualifying compensation being reported accurately in ORBIT?
- **Gender and Date of Birth** – are these pieces of data correctly reported in ORBIT?
- **Date of Enrollment in the Plan with this Employer** – was the employee enrolled according to the unit's policy on membership in the plan? (Some units have a waiting period while others enroll eligible employees upon employment.)
- **Termination date** – are employees who have left employment with the unit, during the calendar year being evaluated, reported as such in ORBIT using the correct date of termination?

Because payroll is such a large expenditure for most units of government, the auditor should already be doing some work with this data and may have some familiarity with ORBIT as part of the financial statement audit. The auditor may need to do additional work to achieve a comfort level appropriate for the attest engagement. However, if the auditor believes the unit's system of internal controls is functioning as it should and believes that any material error in the data would be identified and corrected by the unit, and can document that, only limited testing may be necessary to complete the attest engagement (example, high level analytic and/or analysis vs. a detailed sample). Again, because you are now reporting in accordance with Statement 68, auditors for all participant employers will have to do some work to assure themselves that ORBIT data is materially correct as this data is essential to the net pension asset/liability calculation and related allocation to employers.

Some auditors have indicated concern about peer review with regards to these attest engagements. These engagements would be considered a SSAE engagement, which is a separate category from financial audits. Your peer review team is not automatically required to select a SSAE engagement just because the firm was engaged to do a SSAE engagement. It would be considered if SSAE engagements make up a significant portion of the firm's work but selection is not automatic. We encourage you to contact a member of the NCACPA Peer Review Committee or Mary Kelly on the NCACPA staff (919-469-1040) with specific questions about peer review.

Regarding engagement letters, we believe this is a separate engagement from the financial statement audit. For units that are required to report to the State and Local Government Finance Division (SLGFD), there must be a signed agreement on file with us for this engagement and it must be approved by the unit's board and pre-audited by the finance

officer or deputy with that authority. A copy should be submitted to SLGFD staff for approval and invoices submitted similarly to those for an audit.

Several auditors have asked about the due date and the deliverables for this engagement. OSA has requested that the attest letter be delivered to them by October 1, 2021. Completion of these engagements is critical to OSA's ability to render its opinion on both the State's CAFR and the allocation tables that will be used by employer participants to comply with GASB 68. If you cannot make this deadline please let SLGFD staff know and provide a date when you expect the report can be delivered.

Completed attests and accompanying invoices must be submitted to the SLGFD via the web portal by all entities selected that fall under the Local Government Budget and Fiscal Control Act or the School Budget and Fiscal Control Act. Other entities may submit their reports to the SLGFD unless arrangements are made to submit your report directly to OSA.

Reports should be submitted to us in PDF format via our web portal. Instructions for that process are included at the end of this memo.

Once the attest document is submitted we will review for proper format and compliance with OSA requirements and forward on to OSA. We will also notify the auditor via email that we have approved the document or that we need additional information or changes. For those of you that submit your invoices to us for approval we will follow the same process that we do for annual audits.

Below are some practical approaches you may consider taking in your approach to this engagement. **Please remember that these suggestions are not to be considered a "safe harbor" for identifying the proper procedures to be used.**

Accessing ORBIT data: A staff member of the employer unit should be responsible for reporting entity information monthly to ORBIT and determining the amount owed. That staff member can access ORBIT reports electronically or may have ORBIT printouts of what has been submitted. Any of the data being evaluated for the attest engagement can be accessed once the staff member is logged in to the unit's ORBIT account. The auditor may want to give the staff a list of unit employees to be examined or may choose to sit with the staff as the information is accessed electronically. If you need assistance with understanding the ORBIT reports please contact Maggie Rodriguez, Employer Reporting Specialist with the Retirement Division via telephone at (919) 814-4024 or via email at magally.rodriquez@nctreasurer.com.

Origination of the Data: A great deal of the data substantiation should be found in each employee's personnel file. A document that contains this data and an employee signature attesting to the accuracy of the document should be a sufficient source document for these data elements. Some examples of documents in the employee's file might include, driver's license copy, health insurance enrollment forms, I-9 documents (which the employee specifically signs an attest), employment application forms or other benefit forms.

Specific data elements:

- **Eligibility:** Work in this area will likely include an evaluation of contract labor to determine if any independent contractors should be classified as employees and therefore potentially eligible to be enrolled in either LGERS or TSERS. Evaluation of employer vs. contractor classifications should be taking place as part of the overall payroll audit.
- **Compensation:** In addition to potentially testing a sample of specific employees' data, the auditor might consider comparing total payroll submitted to ORBIT this year as opposed to the prior year and exploring any material differences between the two figures. The auditor should use his or her judgment based on the risk assessment to determine what procedures need to be completed.
- **Gender and Date of Birth:** In addition to comparing ORBIT data to the personnel file for a sample of employees, the auditor may consider scanning birthdates for obvious errors (too recent for the employee to be of working age, for example) and gender for changes from one year to the next. The auditor should use his or her judgment based on the risk assessment to determine what procedures need to be completed.
- **Enrollment date with this employer:** The auditor may want to consider pulling a sample (or testing 100% for a small entity) and testing for date accuracy.
- **Termination date:** Again, depending on the number of employees who left employment (not retiring) who were enrolled in the Plan, the auditor may want to consider testing a sample for date accuracy. Please note this is termination date only and does not apply to any employee leaving the employer due to retirement. Data is verified by DST when a plan member retires.

In addition to this memorandum and the memorandum issued by OSA, auditors can consult the AICPA *State and Local Governments Audit & Accounting Guide* for assistance. It is published each year by the AICPA. The most recent version is dated March 1, 2020.

Another good source for assistance is the AICPA Government Audit Quality Center. Please contact them at GAQC@aicpa.org with specific questions.

The employer manuals for each retirement system as of January 2020 are the appropriate employer manuals to refer to for this work. You can find these manuals on our website at <https://www.nctreasurer.com/state-and-local-government-finance-division/local-government-commission/local-fiscal-management/annual-audit/pension-opeb>. Scroll towards the bottom of the page to find the manual listing.

PLEASE NOTE: We are sending this to the employer contact and employer auditor of record at the time of this email. EMPLOYERS – If you change auditors this year please let your new auditor know that you are participating in the attest process this year. AUDITORS – If you have new clients that are members of TSERS or LGERS be sure to ask them if they have been selected for the attest work this year. We also will post a list of units selected for testing on our website at <https://www.nctreasurer.com/state-and-local-government-finance-division/local-government-commission/local-fiscal-management/annual-audit/pension-opeb>.

Again, scroll down to see the list of units, a copy of this document, and a copy of the memo from OSA.

Finally, you may contact the SLGFD staff or OSA staff with specific questions as well. Susan McCullen may be reached at (919) 814-4302 or via email at susan.mccullen@nctreasurer.com. Chris Morea or Jacob Taitague with OSA may be reached via email at chris.morea@ncauditor.net or Jacob.Taitague@ncauditor.net respectively.