GASB 68 SOC 1 Type 2 Controls

In May 2014, the American Institute of Certified Public Accountants (AICPA) State and Local Government Expert Panel (SLGEP) issued a whitepaper (whitepaper), which describes accounting and auditing issues faced by governmental employers that participate in agent multiple-employer defined benefit plans (agent plans) such as LAGERS, as well as best practice solutions to address those issues. A link to the whitepaper can be found on the GASB page on the LAGERS website at http://www.molagers.org/understanding-gasb.html.

As noted in the whitepaper, a major challenge for employers in agent plans is obtaining all the necessary information to support their specific pension amounts required by GASB 68. These specific amounts are dependent on certain accounting records maintained by LAGERS, the controls and processes in place at LAGERS, as well as the calculations made by LAGERS' consulting actuary, Gabriel Roeder Smith & Company (GRS). The employer is solely responsible for its financial statements; as such, the whitepaper reminds the employer to establish financial reporting processes and controls over the recognition, measurement, presentation, and disclosure of its various pension amounts. Additionally, the employer's auditor is challenged to obtain sufficient appropriate audit evidence regarding the specific pension amounts included in the employer's financial statements, when much of that audit evidence resides at LAGERS. The employer should refer to the AICPA guidance for detailed recommendations regarding appropriate audit processes for your local government as a participant in an agent plan.

The whitepaper guidance provides a two-part best practice solution to address the two elements of the Net Pension Liability (NPL): the Total Pension Liability (TPL) and the Fiduciary Net Position (FNP). LAGERS has engaged the plan auditor, Williams Keepers, LLC, to issue a SOC 1 Type 2 attestation report on controls over census data and related financial data maintained by the plan. Along with the SOC 1 Type 2 report, GRS will issue a separate GASB valuation report specific to each employer which includes an actuarial certification letter addressed to employer management. The SOC 1 Type 2 report issued by Williams Keepers, LLC will also include controls over the calculation and allocations of additions and deductions to employer accounts. The SOC 1 Type 2 report will cover controls in effect for the period January 1 through June 30, 2015. The reason for the condensed period for the initial report is the late issuance of the whitepaper that essentially requires the review. Future SOC 1 Type 2 reports will cover LAGERS' entire fiscal year of July through June. In addition to obtaining the SOC 1 Type 2 report, LAGERS will prepare a schedule of changes in fiduciary net position by employer with Williams Keepers, LLC issuing an opinion on the schedule as a whole.

As part of the SOC 1 engagement, LAGERS has provided Williams Keepers, LLC with written descriptions of the systems, processes, and controls. Williams Keepers, LLC will then attest to the fairness of the descriptions, indicate whether LAGERS designed suitable controls to achieve the objectives stated, and test the operating effectiveness of those controls.   Certain controls identified by LAGERS include key controls that must exist at the employer level. These controls are called user entity controls. Many aspects of the pension processes LAGERS performs are dependent on the processes performed by the employer.   While these user entity controls will be enumerated in the SOC 1 report, Williams Keepers, LLC, will not evaluate whether user entity controls are suitably designed and operating effectively.

Employers should ensure that recommended user entity controls are in place, and employer auditors should review the user entity controls in conjunction with their external audits.

The control objectives to be presented in the SOC 1 report along with the accompanying user entity controls are as follows:

Control Objective #1: Controls provide reasonable assurance that reporting of participant census data and related financial data to the actuary for valuation purposes is complete and accurate.

Complementary User Entity Controls:

- Controls should be established to ensure employer representatives are authorized to create new member records and access current and historical enrollment data.
- Controls should be established to ensure employer representatives provide complete and accurate enrollment information for new hires and any changes to enrollment data.

Control Objective #2: Controls provide reasonable assurance that member, employer, and pooled fund balances are reconciled and reported accurately and completely to the actuary.

Complementary User Entity Controls:

None.

Control Objective #3: Controls provide reasonable assurance that contributions received from employers are completely and accurately credited to member and employer accounts.

Complementary User Entity Controls:

- Controls should be established to ensure that only authorized employer representatives are allowed to submit payroll data to LAGERS.
- Controls should be established to ensure that payroll information submitted to LAGERS is complete and accurate.
- Controls should be established to ensure timely remittance of contributions to LAGERS.
- Controls should be established to ensure timely implementation of contribution rate changes (at beginning of employer fiscal year or at time of benefit change if applicable).
- Controls should be established to review the Statement of Account generated monthly by ECLIPSE for completeness and accuracy.

Control Objective #4: Controls provide reasonable assurance that net investment income allocations are calculated and allocated completely and accurately to member and employer accounts.

Complementary User Entity Controls:

- Controls should be established to ensure timely reporting of employee terminations by employer representatives.

Control Objective #5: Controls provide reasonable assurance that benefit payments and refunds are authorized and processed accurately, completely and in a timely manner in accordance with employer plan provisions.

Complementary User Entity Controls:

- Controls should be established to ensure that only authorized employer representatives certify wage and employment information at time of benefit application.

Control Objective #6: Controls provide reasonable assurance that administrative expenses are allocated reasonably, accurately and completely to employer accounts.

Complementary User Entity Controls:

None.

Control Objective #7: Controls provide reasonable assurance that pooled fund balances (Benefit Reserve Fund and Casualty Reserve Fund) are allocated reasonably, accurately and completely to employer accounts.

Complementary User Entity Controls:

None.

Control Objective #8: Controls provide reasonable assurance that modifications to program applications and existing systems software are authorized, tested, approved and properly implemented and documented.

Complementary User Entity Controls:

None.

Control Objective #9: Controls provide reasonable assurance that logical access to programs and data is granted to appropriately authorized individuals.

Complementary User Entity Controls:

- Controls should be established to ensure access to ECLIPSE Employer Web Portal is limited to authorized individuals via their secure login. Login information should be kept private and secure at all times, and turnover of authorized representatives should be communicated to LAGERS immediately.

Control Objective #10: Controls provide reasonable assurance that computer equipment, storage media and documentation are physically safeguarded via restricting physical access to properly authorized individuals and protecting such assets from loss.

Complementary User Entity Controls:

None.

Control Objective #11: Controls provide reasonable assurance that data and systems are backed up on a regular basis.

Complementary User Entity Controls:

None.