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March 7, 2014

Mr. David Vaudt, Chairman
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

RE: Association of Government Accountant's Support of GASB's Efforts in
Implementing GASB Statement Nos. 67 and 68

Dear Chairman Vaudt:

I am writing on behalf of the 15,000 members of the Association of Government Accountants (AGA) to convey recommendations from the AGA's Financial Management Standards Board (FMSB), of which I am chairman. The AGA received a copy of the Government Finance Officers Association (GFOA)'s resolution of February 28, 2014, calling for a "Delay in the Implementation of GASB Statement No. 68 Until Authoritative Auditing Guidance Is Approved and In Place for a Sufficient Time To Allow Auditors to Issue Unmodified Opinions on Employer Financial Statements." We respectfully disagree with the GFOA's position on a number of levels and urge the Board to continue supporting the implementation schedule set forth in its standard.

We agree that for *agent – multiple employer plans*, the American Institute of Certified Public Accountants (AICPA) has not yet formalized a plan for auditors to audit the information transmitted from the plan to the employer / sponsors. Accordingly, we also agree "the necessary authoritative auditing guidance to coordinate audit procedures between plan and employer auditors has not yet been provided." However, we fully anticipate that the AICPA and most of the government financial management community understand the reporting required by Statement No. 68 is critical to the strengthening of transparency and to meeting the information needs of government stakeholders. From long experience with the committee structure of the AICPA, it is our opinion the AICPA has earned its past reputation for providing thoughtful and timely guidance to its members. Accordingly, we envision that through the exercise of a dedicated effort by the AICPA's committees, their recognition of the clear priority for providing guidance, and the willingness of those affected to respond to proposals from the AICPA as a matter of high priority, the AICPA can and will provide the necessary guidance appropriate to the time-frame required for the implementation of Statement No. 68.

Beyond exhibiting confidence in the AICPA's ability to provide guidance on a timely basis, we have several disagreements with the resolution put forth by the GFOA, as follows:



1. We believe that it is ultimately the auditor’s decision, weighing audit evidence received and relevant assertions made and through testing as to whether or not there is sufficient, appropriate audit evidence and time to issue an unmodified opinion. This is measured by risk and other factors. There may be alternative procedures available to auditors, such as those discussed in our proposed solution provided herein.
2. In the GFOA resolution, it is stipulated that “the threat of a modified opinion also could result in governments significantly delaying the issuance of their financial statements as they seek solutions, consider ramifications (e.g., continuing disclosure requirements, disqualification from “low-risk auditee” status for purposes of the Federal Single Audit), or set times to brief elected bodies prior to issuance”; and the implementation of GASB-68 “is creating a situation where thousands of governments receive modified audit opinions as the direct result of the implementation of GASB Statement No. 68, through no fault of their own or of their auditor, would confuse, rather than enlighten, financial statement users and would be inconsistent with the GASB’s objective of improving public confidence in the reliability of financial reporting for pensions.” We respectfully disagree with this line of argument and its conclusion.

We believe that the AICPA and the GFOA have had knowledge of the GASB’s project to develop what was ultimately issued as Statement No. 68 since at least January of 2006, as have other interested organizations. The various due process documents to which the AICPA and the GFOA provided comment and / or testimony about since 2006 have been included as an Appendix to this letter. We also observed that both organizations took the time and used their full abilities to comment on each step of due process beginning in 2009. Therefore, a delay in the implementation schedule would seem unjustified given the advanced notice that all affected parties have enjoyed. It is our opinion that the costs associated with delaying the availability of new reporting information are too great, including the cost to preparers and their auditors of unnecessarily lengthening the implementation process.

Solution

If the AICPA State and Local Government Expert Panel cannot meet its expected timetable of issuing guidance by May 2014, we propose an alternative solution to this issue, which is derived from the AICPA’s *Audit and Accounting Guide – Employee Benefit Plans* (the Guide). The Guide has been in publication since the passage of the Employee Retirement Income Security Act of 1974 (ERISA) and has been updated regularly. ERISA affects roughly 141 million workers, retirees, and dependents of private sector pension and welfare plans with estimated assets of \$7.6 trillion¹. Within the guide, there are the following provisions:

Paragraph 1.04: The accounting provisions of this guide are not intended to apply to employee benefit plans of governmental entities. However, **auditors of employee benefit plans of governmental entities might refer to it for auditing considerations that may be relevant (such as, for example, evaluating certain actuarial information.)²**

Paragraphs 6.126 through 6.180 (and various appendices) discuss the auditing considerations for defined benefit plans in great detail. This includes:

¹ AICPA Audit and Accounting Guide, *Employee Benefit Plans*, par. 1.01, as of January 1, 2014.

² IBID par. 1.04

- Determining audit strategy,
- Cash balances,
- Investments and related income,
- Contributions and contributions receivable,
- Other Receivables,
- Operating Assets,
- Accrued Liabilities
- Benefit Payments
- Plan Expenses
- Accumulated Plan Benefits and Participant Census Data

With respect to contributions for multiemployer and multiple employer plans, paragraph 6.155 has five steps of “substantive audit procedures.” These include:

- a. Reviewing pertinent sections of the collective bargaining agreement as a basis for considering what payroll and participant data should be tested
- b. Obtaining a list of participating employers, and testing its completeness by examining appropriate plan records (For example, a record of contributing employers and delinquency records could be obtained from the plan administrator.)
- c. Obtaining a schedule of contributions received or receivable and agreeing the contributors to the listing of participating employers obtained in item (b) for completeness
- d. Comparing the amount of employer contributions recorded in the plan's records with the amount negotiated in the collective bargaining agreement
- e. Testing that contributions are arithmetically correct and that the contribution rate specified in the collective bargaining agreement was used.

Additional steps are available for various conditions noted in paragraphs 6.156 through 6.158.³

We therefore suggest the following:

1. ***If the AICPA State and Local Government Expert Panel cannot meet its expected timetable of issuing guidance by May 2014***, the AICPA may follow the guidance contained in the *Employee Benefit Plans* audit and accounting guide for the foreseeable future -- for up to four years after implementation of GASB-68 (i.e. for fiscal years beginning after June 15, 2014 through fiscal years beginning after June 15, 2017). As Paragraph 1.04 allows governmental auditors to consider the guidance contained in the Guide, the provisions of Chapter 6 are seemingly usable as the auditing considerations of risk, materiality, testing etc. are all included. Furthermore, given that there is already a year delay between when plans will report in accordance with GASB-67 and when employers will report in accordance with GASB-68, along with enhanced flexibility contained in the standards on when an actuarial valuation may be used, many of these tests conceivably could be performed “off - cycle,” potentially mitigating delays. Many of the tests can be used for agent – multiple employer testing, coupled with the AICPA’s recently published whitepaper *Single – Employer and Cost-Sharing Multiple – Employer Plans: Issues Associated with Testing Census Data in an Audit of Financial Statements*. We suggest that the census testing provisions could also be performed for agent employers to substantiate data given to plans. Further, authoritative guidance already exists on gaining comfort on actuarial and investment data in AU-C 500 (*Audit Evidence*), which will be used to derive much of an employer’s net pension liability, deferred outflows and deferred inflows positions as well as pension expense.
2. The plan’s auditor may also apply the limited census testing provisions contained in the *Guide* in Chapter 6 to gain comfort on the census data, investment crediting, and benefit payments. Depending on the plan’s policy of administrative cost allocation, additional testing could also

³ IBID, Chapter 6.

occur on plan expenses. Obviously, if the plan has an effective internal audit function, greater reliance can be placed on the plan's information. This testing could assist in gaining comfort on amounts contained in a statement of changes in fiduciary net position.

3. During the four years immediately following implementation of GASB-68, the AICPA could report on any change in the level of audit risk with regard to agent multiple-employer plans and participating employers as part of their annual *Audit Risk Alert*. This would be measured by the amount of material misstatements, in excess of what is currently expected due to the required restatements that will likely occur as governments record their net pension liabilities and deferred inflows and outflows of resources balances over the coming years. During this period, the AICPA could consult with members of the GASAC in developing additional audit guidance with regard to agent multiple – employer plans as needed.

As a concluding matter, we can look to what has changed in our profession upon the passage of Public Law 107-204, known as the Sarbanes – Oxley Act in 2002. The internal control standards contained in Statement on Auditing Standards No. 106, *Audit Evidence* (AU-326) (as codified in AU-C 500,) applied to periods beginning on or after December 15, 2006. This is the genesis of our view that the level of audit risk between now and periods beginning after June 15, 2017 will not increase *solely* due to the lack of finality on audit standards with regard to agent – multiple employer plans. We have pointed out that options do exist for the successful auditing of such plans under current auditing standards and interpretive guidance. Furthermore, we believe that the information gleaned from the interpretations issued on auditing cost – sharing multiple employer plans as proposed by the AICPA may be somewhat applicable in any ultimate standard imposing special auditing requirements on agent multiple - employer plans. For example, the tiered and risk – based approach to auditing census data could be applied to agent multiple - employer plans.

We believe we have put forth above a reasonable compromise. We urge the GASB not to delay implementing the standard.

Sincerely,



Eric S. Berman, MSA, CPA, CGMA
Chairman
Financial Management Standards Board

Cc: GASB Board Members
Members of GASAC

APPENDIX – Dates of Due Process and AICPA / GFOA Comment Letters and / or Testimony to the GASB

Due Process Document or Action	Date	Date of Response and Reference Information
Board approval of research project to gather information regarding the effectiveness of Statement No. 25, <i>Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans</i> and Statement No. 27, <i>Accounting for Pensions by State and Local Governmental Employers</i>	January 2006	Not applicable, but presumably reported to the GASAC as part of a March 2006 meeting of which it is likely the members were present.
Addition to the technical agenda after GASB staff presentation. The project was included in the GASB’s technical plan for the second third of 2008 and made publicly available.	April 2008	Not applicable, but documentation was made publicly available on the GASB’s technical plan and deliberations on their website.
Per paragraph 144 of GASB-68, “The Board assembled a task force comprising persons broadly representative of GASB’s constituency. The task force members reviewed and commented on papers prepared for the Board’s deliberations and on drafts of documents prepared for public comment throughout the project... In addition, further input also was sought from the members of the (GASAC) at its meetings.”	2008 – 2012	During this timeframe, there were 12 meetings of the GASAC, at least annual meetings between the GFOA, AICPA and the Board, along with annual conferences and other venues for comment and input.
<i>Invitation to Comment</i> - the Board received 117 written responses to the Invitation to Comment from organizations and individuals, and had the opportunity to further explore the views of, 17 individuals or groups at 2 public hearings.	March 2009	Responses no longer on GASB’s website – in the GFOA’s “report on standing committee’s activities” at the June 27, 2009 meetings, it is remarked that “The CAAFR also worked jointly with the Committee on Retirement and Benefits Administration to reach tentative agreement on the GFOA response to the GASB on its invitation to comment on pension accounting and financial reporting.” In an article published by the GFOA in 2009, indeed the organization “strongly supports maintaining the current focus on employer funding requirements in accounting and financial reporting for pension benefits.” But the article also says “that we are persuaded that the accumulated underfunding of past

Due Process Document or Action	Date	Date of Response and Reference Information
		<p>required contributions both meets the basic definition of a liability and is reasonably measurable. We therefore support its continued presentation as a liability on the face of the statement of net assets”.</p> <p>On August 12, 2009, the AICPA State and Local Government Expert Panel and the Director of Governmental Auditing and Accounting commented to the GASB: “Therefore, we fully support the Board’s efforts in undertaking this project. We have also previously recommended that the Board consider requiring the accrual of the <i>entire</i> unfunded accrued benefit obligation in the financial statements for pension benefits... (W)e continue to believe that requiring this will provide more decision – useful information and improve accountability and transparency.” The comment letter also says that the letter was reviewed by representatives of the Accounting Standards Executive Committee (AcSEC) who did not object to its issuance.</p>
<p><i>Preliminary Views</i> – the Board received 193 written responses to the Preliminary Views from organizations and individuals. In addition, the Board received oral testimony from, and had the opportunity to explore the views of, 29 individuals or groups at 3 public hearings.</p>	<p>June 2010</p>	<p>On September 30, 2010, the GFOA testified that</p> <ol style="list-style-type: none"> a. They are in agreement that an employer is primarily responsible for the portion of the obligation for defined benefit pension benefits in excess of the plan’s net assets available for benefits. b. The GFOA agreed that the unfunded portion of a sole or agent employer’s pension obligation to its employees meets the definition of a liability provided in Concepts Statement No. 4. <p>The GFOA <i>disagreed</i> though that the net pension liability is measurable with sufficient liability citing the difficulty in measuring a market price. (This was subsequently fixed through the Board’s adoption of smoothing.)</p> <p>This is presented as comment letter 181 on GASB’s website.</p>

Due Process Document or Action	Date	Date of Response and Reference Information
		<p>The AICPA commented on October 4, 2010 (comment letter 185), stating the following (in part):</p> <ul style="list-style-type: none"> • The AICPA agreed with the Board’s view that an employer remains primarily responsible for the portion of its benefit obligation to employees in excess of the plan net asset available for pension benefits. • The AICPA agreed that the unfunded portion of a sole or agent employer’s pension obligation to its employees meets the definition of a liability in accordance with Concepts Statement No. 4. They also agreed that by not recording this information shifts those costs to future generations. • <i>They agreed with the Board’s view that the net pension liability is measureable with sufficient reliability to be recognized in the employer’s basic financial statements (therefore – by proxy – auditable). They refer to a previous statement that “actuarial science is well established and there are numerous instances today in which financial statements are affected by actuarial calculations and are reliably stated.”</i> <p>The letter goes on to say that the Financial Reporting Executive Committee of the AICPA reviewed the letter and did not object to its issuance.</p>
<p><i>Exposure Draft</i> – The Board received 651 responses from organizations and individuals. In addition, the Board received oral testimony from, and had the opportunity to further explore the views of 52 individuals or groups at 3 public hearings and during 3 user forums held to obtain feedback.</p>	<p>June 2011</p>	<p>In September of 2011, both the AICPA and the GFOA responded to the exposure drafts on the projects. In comment letter 27, The AICPA disagreed with the discount rate methodology proposed and the allocation methodology to cost sharing employers. The AICPA expressed concerns over “how the participating agent employers will obtain sufficient, reliable, and verifiable information to determine their interest of plan net position to record.” This is in contrast to their preliminary view. At that time, the AICPA proposed a statement to be added to show each</p>

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		<p>employer's portion of an agent plan's position.</p> <p>The AICPA also commented as follows: "Accordingly, we support one effective date for all entities for periods beginning after June 15, 2013. This date will give preparers sufficient time to work towards the implementation of these comprehensive standards."</p> <p>The GFOA's testimony (letter 30,) opposed only the abandonment of "the use of the employer's ARC as the basis for measuring pension cost," and "the idea that individual employers in a cost-sharing plan should report a proportionate share of the total net liability and expense of all participating employers." The GFOA did not comment in its testimony of September 2011 as to the effective date.</p>
GASB-68 issued	June 2012	Not applicable.