

# GASB 67 & 68

Practical Applications for Massachusetts Retirement Plans

Slide Handouts (Part 2)

## **Hogan Conference Center**

College of the Holy Cross, Worcester, MA

September 18, 2014



#### COMMONWEALTH OF MASSACHUSETTS

Public Employee Retirement Administration Commission
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# GASB 67 and GASB 68

Practical Applications for Massachusetts Public Plans



September 18, 2014

#### GASB 67/68 Presentations, Part 2:

Planning, Preparation and Collaboration for GASB 67/68 Implementation	
(Frank Biron, Melanson Health and Linda Bournival, KMS Actuaries, LLC)	2
The Audit Implications of the GASB's New Pension Standards	
Census Data Testing (Brock Romano, KPMG LLP)	18

# Planning, Preparation and Collaboration for GASB 67/68 Implementation

PERAC Emerging Issues Forum September 18, 2014

Frank R. Biron, CPA President



Linda L. Bournival, FSA Consulting Actuary



#### THE DILEMMA



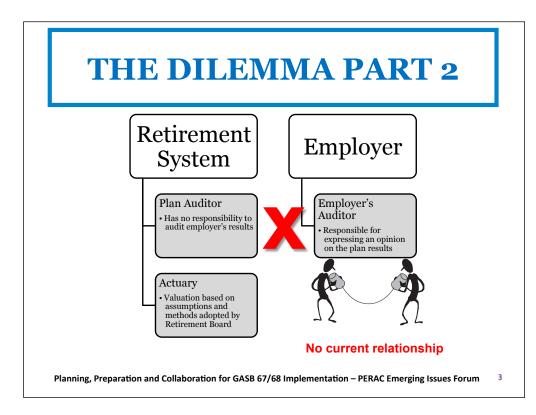
The Retirement Board has complete <u>control</u> of the actuarial valuation and the tracking of fiduciary net position (assets) by employer

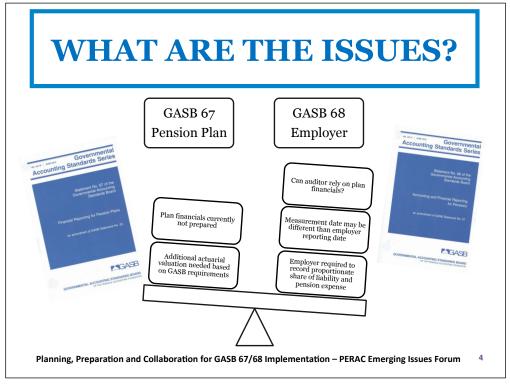


The City or Town is completely responsible for the reporting of NPL and related pension numbers in their financial statements

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NOTES:





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# IMPLEMENTATION ISSUES

#### Pension Funding Policy

- Funding Policy is based on requirements of Section 22D and 22F
- Financial reporting is based on GASB 67 and 68
- Each will require a separate actuarial valuation
- May have an impact on the development of the discount rate

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# IMPLEMENTATION ISSUES

#### **Selection of Assumptions**

- Same assumptions must be used for financial reporting by Retirement System and employers
- Discount rate used by Retirement System must be used by each employer

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# IMPLEMENTATION ISSUES

## **Timing of Measurements**

- Retirement System will report net pension liability as of the end of the plan's fiscal year
- Employers have flexibility with which measurement date to use
  - No earlier than end of employer's prior year-end

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# IMPLEMENTATION ISSUES

#### **Timing of Actuarial Valuations**

- Likely that Plan and employer fiscal year-ends differ
- Must coordinate timing of actuarial valuation date to ensure valuation dates and measurement dates fall within timing requirements
  - Valuation must be within 30 months and one day of employer's year-end

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# IMPLEMENTATION ISSUES

#### **Employer Reporting**

- Some information required to be reported by both Retirement System and employer
- Some information required to be reported by employer but will be derived from information reported by Retirement System

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# IMPLEMENTATION ISSUES

#### **Cost-Sharing Plans**

- · Proportionate share of pension liability
  - Information for the plan as a whole is needed to develop proportionate share
- Measurement of pension expense and deferred outflows and inflows
  - Needed for Retirement System as a whole and for each employer
- Retirement System reporting
  - Will information be sufficient so that employers' auditors can express an opinion on that information?

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NOTES:			

# GASB 67 NEW DISCLOSURES (FOR PLAN)

- · Schedule of Changes in Net Pension Liability
  - Developed by Actuary
- Schedule of Net Pension Liability
  - Developed by Actuary
- Schedule of Contributions
  - Developed by Actuary
- Schedule of Investment returns
  - Money-weighted rate of return
  - Developed by?
    - · Investment advisor
    - Actuary
    - · Retirement Administrator

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## GASB 68 NEW DISCLOSURES (FOR EMPLOYER)

- Summary of Significant Pension Accounting Policies
  - Information comes from pension plan's audited financial statements
- General information about the pension plan
  - Plan description, benefits provided, contribution requirements
  - Information comes from plan's audited financial statements
- Pension liabilities, pension expense, deferred outflows/ inflows
  - Information developed and tracked by actuary

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#### NEW REQUIRED SUPPLEMENTARY INFORMATION (FOR EMPLOYER)

Required in Employer's financial statements

- 10-year trend information
  - Proportionate share of net pension liability
  - Schedule of contributions
- 10 years can begin with 2015

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# PROPORTIONATE SHARE REQUIREMENTS

- Prior to GASB 68
  - employers in a cost-sharing plan recognized annual pension expense equal to their required contribution to the plan
  - Pension liability = contributions required less contributions made
- With GASB 68
  - employers must now recognize proportionate share of collective pension amounts in their financial statements
    - Net pension liability
    - · Deferred outflows and inflows of resources
    - · Pension expense
  - Individual proportions determined by measuring each employer against total of all employers in the plan

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NOTES:			

# PROPORTIONATE SHARE CHALLENGES

- Limitations with the Plan's Audited Statements
  - Includes only the net pension liability for the plan as a whole
  - Does not include pension amounts by participating employer
  - Participating employers will need information beyond what is provided in Plan's audited financial statements to determine their proportionate share
- · Methods of allocation
  - Should be consistent with the manner in which contributions to the plan are determined
  - GASB 68 encourages the use of an actuarial method
- Who calculates allocation percentages and collective pension amounts?
  - GASB 68 does not specify

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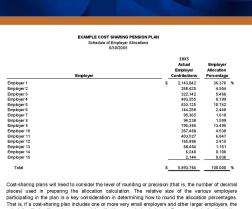
#### **AICPA SOLUTION**

- AICPA adopted "best practice" solution
  - Schedule of employer allocations
  - Schedule of pension amounts by employer
- Could be presented as a stand-alone schedule or included as a supplemental schedule to the plan's financial statements
- Plan auditor forms an opinion on the schedule in accordance with AICPA guidelines (this is HUGE)

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# "Best Practice" **Schedule of Employer Allocations**



.036% (that is, .00036), using five decimal places. Rounding to anything less than four decimal place would result in no allocation to Employer 15.

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## "Best Practice" **Schedule of Pension Amounts**

- · Cost-sharing plan actuary prepares schedule of pension amounts
  - Net pension liability
  - Deferred outflows/inflows of resources
    - Economic experience gains and losses
    - · Investment gains and losses
    - · Changes in assumptions
    - Differences in proportionate share from year to year
  - Pension expense
- · Could be by employer or summary

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# "Best Practice" Schedule of Pension Amounts

EXAMPLE COST SHARING PENSION PLAN Schedule of Pension Amounts by Employer As of and for the year ended 6/30/20X5

Entity		Net Pension Liability	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Outflows of Resources	Differences Between Expected and Actual Experience	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	Proportional Share of	let Amortization of Deferred Amounts from Changes in Proportion and Differences Between te Employer Contributions and Proportionate Share of Contributions	Total
Employer 1	\$	45,224,620	438.859	1,569,847	1,404,206	695,426	4,108,338	355.917	-	726,425	1.082.342	1.907.283	12,375	1,919,658
Emplayer 2		5,661,780	54,942	196,533	175,796	84,231	511,502	44,558	-	74,326	118,884	238,777	(1,793)	236,984
Employer 3		6,795,628	65,945	235,892	211,001	117.354	630,192	53,481	-	98.465	151,946	286,596	(880,8)	278,508
Employer 4		10,193,442	98,917	353,838	316,502	161,215	930,472	80,222	-	165,453	245,675	429,894	3,021	432,915
Employer 5		13,355,038	129,597	463,584	414,668	199,845	1,207,694	105,103	-	197,645	302,748	563,229	(9,900)	553,329
Employer 6		3,043,487	29,534	105,646	94,499	53,453	283,132	23,952	-	48,453	72,405	128,355	599	128,954
Employer 7		2,011,585	19,520	69,827	62,459	33,458	185,264	15,831	_	35,345	51,176	84,836	625	85,461
Emplayer 8		1,987,964	19,291	69,007	61,725	35,425	185,448	15,645	-	16,453	32,098	83,839	(5,712)	78,127
Employer 9		16,777,717	162,811	582,393	520,941	248,356	1,514,501	132,040	-	284,543	416,583	707,576	8,405	715,981
Employer 10		5,641,888	54,749	195,843	175,178	95,465	521,235	44,401	-	44,356	88,757	237,938	(1,188)	236,750
Emplayer 11		8,512,562	82,606	295,490	264,312	136,453	778,861	66,993	-	148,543	215,536	359,005	1,254	360,259
Employer 12		3,499,761	33,962	121,485	108,666	52,145	316,258	27,543		64,354	91,897	147,597	453	148,050
Emplayer 13		1,443,418	14,007	50,104	44,818	23,156	132,085	11,360	-	33,453	44,813	60,874	(205)	60,669
Employer 14		131,785	1,279	4,575	4,092	1,968	11,914	1,037	-	894	1,931	5,558	147	5,705
Employer 15	-	44,757	434	1,554	1,390	1,456	4,834	352		698	1,050	1,888		1,895
Total for All														
Entitles	\$	124,325,432	1.206.453	4.315.618	3 860 253	1 939 406	11.321.730	978 435	_	1 939 406	2 917 841	5 243 245	_	5 243 245

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COLLABORATION

Retirement Board

GASB 67
Plan
Financial Reporting

Plan
Auditor

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#### NOTES:

### **Retirement Board Responsibilities**

- Engage actuary
- Engage plan auditor
- Completeness and accuracy of census data and other accounting records
- Fair presentation of plan's financial statements
- Investment policy

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## **COLLABORATION**

#### Plan Actuary Responsibilities

- Prepare funding valuation (same as before)
- Prepare accounting valuation under GASB 67 (new)
- Calculate net pension liability under GASB 67
- · Prepare schedule of changes in pension liability
- Prepare "best practice" schedule of employer allocations
- Prepare "best practice" schedule of pension amounts by employer
- · Maintain schedules of various deferred inflows/outflows
- Provide information to plan auditors to support calculations and schedules

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#### **Investment Advisor Responsibilities**

- Document target allocations and expected rates of return by asset class (for new footnote disclosures)
- Calculate money weighted rate of return (for new footnote disclosures)
- Provide calculation to plan auditor

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## **COLLABORATION**

#### Plan Auditor Responsibilities

- Regular audit of the plan financials (same as before)
- · Test completeness and accuracy of census data
- Test new footnote information
  - Annual money-weighted rate of return calculation (from investment advisor)
  - Net pension liability (from actuary)
  - Discount rate calculation (from actuary)
  - One percent sensitivity calculation (from actuary)

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#### Plan Auditor Responsibilities, continued

- Test new supplementary information
  - Change in net pension liability (from actuary must agree with financials)
  - Net pension liability (from actuary must agree with financials)
  - Contributions (same as before)
  - Investment returns (from investment advisor)

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## **COLLABORATION**

## Plan Auditor Responsibilities, continued

- Test "best practice" schedules
  - Auditor must provide opinion on "best practice" schedules
  - Auditor must test for accuracy and for compliance with GASB 67/68 requirements
  - Auditor needs supporting documentation (from actuaries)

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#### **Employer Responsibilities**

- Evaluate information used to record and disclose pension amounts in employer financial statements
  - Use plan's "best practice" schedules as source of amounts to be recorded for
    - Net pension liability
    - · Deferred outflows
    - · Deferred inflows
    - Pension expense
- What if plan not audited? (tick, tick, tick ...)

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## **COLLABORATION**

### Employer's Auditor Responsibilities

- Audit employer's financial statements (same as before)
- Determine sufficiency and appropriateness of new pension amounts and disclosures
  - Read plan auditor opinions, prove pension amounts to "best practice" schedules, prove mathematical calculations, compare employer footnote disclosures to plan footnote disclosures, etc.

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## **PLAN AHEAD!**

- Actuarial valuation or roll-forward?
- When will valuation be issued?
- Which employers' census data will be tested?
- Who will calculate the money-weighted rates of return and document new investment policy disclosures?
- Will actuary provide auditors with sufficient support for
  - New footnote disclosures?
  - New supplementary schedules?
  - New "best practice" schedules?
- · When will plan audit be completed?

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# **QUESTIONS**



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NOTES:			

# **RESOURCES**

- Aicpa.org/gaqc. "Governmental Employer Participation in Cost-Sharing Multiple-Employer Plans: Issues Related to Information for Employer Reporting." SLGEP Pension Whitepaper Series (n.d.): n. pag.Aicpa.org. AICPA, Feb. 2014. Web. 27 Aug. 2014.
- Aicpa.org/gaqc. "Single-Employer and Cost-Sharing Multiple-Employer Plans: Issues Associated with Testing Census Data in an Audit of Financial Statements." *SLGEP Pension Whitepaper Series* (n.d.): n. pag.*Aicpa.org*. AICPA, Feb. 2014. Web. 27 Aug. 2014.

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### The Audit Implications of the GASB's New Pension Standards Census Data Testing

Brock Romano, KPMG LLP

September 18, 2014

#### Speaker Biography



Brock Romano, CPA, is a partner with KPMG LLP (KPMG) with 28 years of experience serving state and local government organizations. Brock's engagement partner responsibilities include the Commonwealth of Massachusetts, the Pension Reserve Investment Management Board as well as numerous cities, towns, authorities and their retirement systems. Brock has also served as the concurring partner on the majority of KPMG's largest and most complex state audit engagements including the states of New Hampshire, Vermont, New York, New Jersey, Illinois and the California. In addition to his state and local government responsibilities, Brock also serves on the engagement team of numerous alternative investment clients including hedge fund, private equity and venture capital partnerships. For over 25 years Brock has continuously participated in KPMG's internal quality review program by evaluating the audit quality of KPMG audit engagements across the country.

Brock is a member of the AICPA, MSCPA, AGA as well as and an active participant in the New England Intergovernmental Audit Forum.

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#### **AGENDA Focus on Census Data Elements of Census Data Massachusetts Pension Systems** Cost-Sharing Plans —Testing Underlying Census **Data of Active Employees Example: Dukes County How will Census Data be Tested Common Questions and Issues Reference Materials** © 2014 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG international Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

#### **Focus on Census Data**

With the implementation of the new pension standards, employers will be required to recognize a pension liability as employees earn their pension benefits.

For the first time, employers participating in cost-sharing plans will recognize their proportionate share of the collective pension amounts for all benefits provided through the plan.

Key input in measuring the pension liability is the census data.

AICPA has issued new guidance that requires census data to be tested at participating employers.

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#### **Elements of Census Data**

#### Significant Elements of census data may include:

- Date of Birth
- Date of Hire
- · Years of Service
- Marital Status
- Eligible Compensation
- Class of Employee
- Gender
- Date of termination or retirement
- Spouse date of birth
- Employment status (active, inactive, retired)

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#### **Massachusetts Pension Systems**

- ■There are over 100 pension system in Massachusetts
- The majority of those systems are cost-sharing systems that include multiple employers such as:
  - City/Town
  - Housing Authority
  - Light Department
  - Regional School District
  - Authorities and other special purpose entities (e.g. Redevelopment Authorities, Water and Sewer districts etc.)

- The Regional and County systems in particular have numerous employers.
  - County Systems
    - Barnstable
    - Berkshire
    - Bristol
    - Dukes
    - Hampden
    - Hampshire
    - Middlesex
    - Norfolk
    - Plymouth
  - Regional Systems
    - Essex
    - Franklin
    - Worcester

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# Cost-Sharing Plans —Testing Underlying Census Data of Active Employees

- Risk-based approach by plan auditor to select employers to test
  - Individually important employers (e.g. > 20% of plan) tested annually
  - Plan auditor performs risk assessment on remaining employers using tiered approach
    - For example:
    - Employers between 5 and 20% tested to approximate a 5-year cycle
    - Employers less than 5% tested to approximate a 10-year cycle
    - Many small employers will never be tested (e.g. employers representing 2% in aggregate of plan)

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#### **Example: Dukes County**

	PENSION FUN	D
<u>Unit</u>	APP %	APPROF
County of Dukes	5.3447%	\$ 251,91
Town of Tisbury	18.0929%	852,79
Town of Edgartown	22.4898%	1,060,03
Town of Oak Bluffs	17.9668%	846,84
Town of West Tisbury	6.0532%	285,31
Town of Chilmark	5.2184%	245,96
Town of Aquinnah	2.4294%	114,50
Town of Gosnold	0.4537%	21,38
Oak Bluffs Water Dept.	1.4984%	70,62
Up-Island Reg. School	2.8935%	136,38
M.V. Regional School	10.0960%	475,86
M.V. Land Bank	1.8716%	88,21
M.V. Commission	2.3841%	112,37
M.V. Refuse District	1.7105%	80,62
Dukes Co. Hous. Auth.	0.0000%	
M.V. Transit Auth.	1.4971%	70,56
Total	100.00%	\$ 4,713,40

**NOTES:** 

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#### **Example: Dukes County (continued)**

Individually important Employer(s) (census data tested annually) - Town of Edgartown

	PENSION FUND	
<u>Unit</u>	APP %	APPROP.
County of Dukes	5.3447%	\$ 251,916
Town of Tisbury	18.0929%	852,790
Town of Edgartown	22.4898%	1,060,035
Town of Oak Bluffs	17.9668%	846,849
Town of West Tisbury	6.0532%	285,310
Town of Chilmark	5.2184%	245,963
Town of Aquinnah	2.4294%	114,508
Town of Gosnold	0.4537%	21,384
Oak Bluffs Water Dept.	1.4984%	70,627
Up-Island Reg. School	2.8935%	136,382
M.V. Regional School	10.0960%	475,865
M.V. Land Bank	1.8716%	88,217
M.V. Commission	2.3841%	112,373
M.V. Refuse District	1.7105%	80,623
Dukes Co. Hous. Auth.	0.0000%	0
M.V. Transit Auth.	1.4971%	70,563
Total	100.00%	\$ 4,713,405

Source: PERAC website

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#### **Example: Dukes County (continued)**

		PENSION	I FUND
distributed by the section to	<u>Unit</u>	APP %	APPROP
dividually important nployer(s) (census	County of Dukes	5.3447%	\$ 251,916
ta tested annually) Town of Edgartown	Town of Tisbury	18.0929%	852,790
Risk Assessment on	Town of Edgartown	22.4898%	1,060,03
maining Employers:	Town of Oak Bluffs	17.9668%	846,849
<ul> <li>Employers between 5 and 20% (census</li> </ul>	Town of West Tisbury	6.0532%	285,31
ata tested on a 5- ear cycle)	Town of Chilmark	5.2184%	245,96
year cycle) - County of Dukes - Town of Tisbury - Town of Oak Bluffs - Town of West Tisbury - Town of Chilmark - MV Regional School	Town of Aquinnah	2.4294%	114,50
	Town of Gosnold	0.4537%	21,38
	Oak Bluffs Water Dept.	1.4984%	70,62
	Up-Island Reg. School	2.8935%	136,38
	M.V. Regional School	10.0960%	475,86
	M.V. Land Bank	1.8716%	88,21
	M.V. Commission	2.3841%	112,37
	M.V. Refuse District	1.7105%	80,62
	Dukes Co. Hous. Auth.	0.0000%	(
	M.V. Transit Auth.	1.4971%	70,563
Source: PERAC webs	Total	100.00%	\$ 4,713,405

#### NOTES:

#### **Example: Dukes County (continued)**

		PENSION	I FUND
Individually important	<u>Unit</u>	APP %	APPROP
Employer(s) (census data tested annually)	County of Dukes	5.3447%	\$ 251,916
- Town of Edgartown Risk Assessment on	Town of Tisbury	18.0929%	852,790
Remaining Employers:	Town of Edgartown	22.4898%	1,060,035
Employers between 5 and 20% (census data	Town of Oak Bluffs	17.9668%	846,849
tested on a 5-year cycle)	Town of West Tisbury	6.0532%	285,310
- County of Dukes - Town of Tisbury	Town of Chilmark	5.2184%	<b>245,96</b> 3
- Town of Oak Bluffs	Town of Aquinnah	2.4294%	114,508
- Town of West Tisbury - Town of Chilmark - MV Regional School	Town of Gosnold	0.4537%	21,384
	Oak Bluffs Water Dept.	1.4984%	70,627
Risk Assessment on Remaining Employers: Remaining Employers (census data tested on a 10-year cycle) - Potentially only two employers get excluded (Town of Gosnold and M.V. Transit Auth.)	Up-Island Reg. School	2.8935%	136,382
	M.V. Regional School	10.0960%	475,865
	M.V. Land Bank	1.8716%	88,217
	M.V. Commission	2.3841%	112,373
	M.V. Refuse District	1.7105%	80,623
	Dukes Co. Hous. Auth.	0.0000%	(
	M.V. Transit Auth.	1.4971%	70,563
Source: PERAC webs	Total ite	100.00%	\$ 4,713,405

#### **How will Census Data be Tested**

#### Plan

NOTES.

#### **Evaluation of Controls**

•Management is responsible for the completeness and accuracy of census data

# Census data testwork will focus on:

- Reconciling/rolling forward census data sent to the actuary
- Testing inactive and retired

#### **Employer**

## Census data testwork will focus

- •Reconciling deduction/remittance/ transmission reports to payroll records
- •Reporting status changes to the Plan
- Testing active employees

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#### **Common Questions/Issues**

- Cost-Sharing Plans:
- Will census data be tested by Plan auditors or employer auditor.
- How much will it cost for the additional census data testwork
- Who pays for the additional cost
- Period tested for census data (12 months prior to valuation)
- Procedures to be performed at employer. AICPA has yet to provide guidance.
- Separate attribute samples selected for each employerAgent Plans:
- Separate guidance exists for testing census data for agent plans

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# Reference Materials: Cost-Sharing Plans—AIPCA Recommendations and Guidance

#### **Whitepapers**

- Government Employer Participation in Cost-Sharing Multiple Employer Plans: Issues Related to Information for Employer Reporting
- Single-Employer and Cost-Sharing Multiple-Employer Plans: Issues Associated with Testing Census Data

#### **Auditing Interpretations**

- Issued interpretations to 3 AU-C sections
- AU-C 500
- AU-C 600
- AU-C 805

Links to Papers & Interpretations on GAQC "GASB Matters" website: www.aicpa.org/GAQC

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NOTES:			

# Reference Materials: Agent Plans—AIPCA Recommendations and Guidance

#### Whitepaper

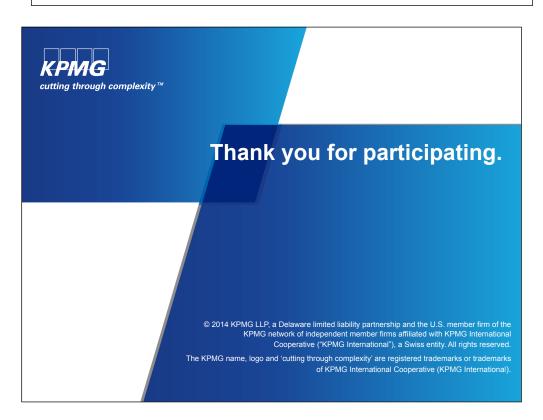
 Government Employer Participation in Agent Multiple Employer Plans: Issues Related to Information for Employer Reporting

#### **Auditing Interpretations**

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# NOTES:

