

CITY COUNCIL STAFF REPORT

DATE: June 17, 2015 CONSENT CALENDAR

SUBJECT: APPROVE AMENDMENT NO. 3 TO THE PROFESSIONAL SERVICES AGREEMENT WITH LANCE, SOLL AND LUNGHARD, LLP TO ADD SERVICES FOR GASB 68 FOR THE FISCAL YEAR 2014-15 AUDIT.

FROM: David H. Ready, City Manager

BY: Department of Finance and Treasury

SUMMARY

The City is required by law and the Government Accounting Standards Board (GASB) to issue Comprehensive Annual Financial Reports that are audited by an outside audit firm. New audit requirements imposed under GASB 68 are being implemented for the audit of FY 2014-15 which add \$12,000 in additional cost.

RECOMMENDATION:

1. Approve Amendment No. 3 to Agreement No. A5960 with Lance, Soll, and Lunghard, LLC, in the amount of \$12,000 for the Fiscal Year 2014-15 Financial Audit to add additional services required pursuant to GASB 68, in a form approved by the City Attorney.
2. Authorize the City Manager to execute the Amendment to the Agreement. A5960.

STAFF ANALYSIS:

The City has previously entered into a professional services agreement for Financial Auditing Services, at the annual base rate of \$72, 963 for Fiscal Year 2014-15. City Staff is recommending the City Council approve an amended to the agreement for Fiscal Year 2014-15.


Newly enacted GASB 68 is required to be implemented for Fiscal Year 2014-15, which requires a new audit approach to the pension liability testing. The Net Pension Liability will be added to the City's Statement of Net Position in the Long-Term Liabilities

category. In addition, there will be changes in the footnote disclosures including additional required supplementary information.

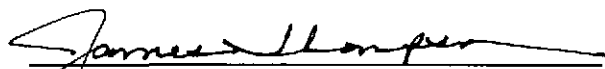
These changes will increase the scope of the auditors' testing and directly relates to the City's retirement plans. The additional price for Fiscal Year 2014-15 is \$12,000.

FISCAL IMPACT:

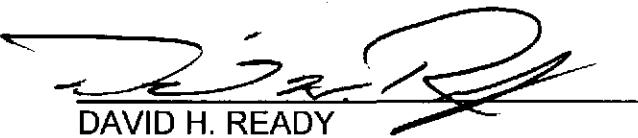
Additional cost of \$12,000 for audit services related to GASB 68, for Fiscal Year 2014-15 will be appropriated in the Finance Department account 001-1300-43200.



GEOFFREY KIEHL
Direct of Finance and Treasurer



JAMES THOMPSON
Chief of Staff / City Clerk



DAVID H. READY
City Manager

Attachments:
Proposal for Audit Services

May 27, 2015

Mr. Geoffrey S. Kiehl
City of Palm Springs
3200 E. Tahquitz Canyon Way
Palm Springs, CA 92263

Dear Mr. Kiehl,

ADDITIONS TO AUDIT SCOPE

As you are aware the GASB 68 implementation year is upon us for fiscal year 2014-2015. These additional changes have brought a new audit approach to the pension liability testing. The Net Pension Liability will now be added to your Statement of Net Position in the Long-term liabilities category. In addition, there will be changes in footnote disclosures and additional required supplementary information. These changes will increase the audit scope of our testing that directly relates to your retirement plans.

Additional Scope of the Procedures to be Performed

Your Responsibilities:

1. **Responsible for evaluating the information used to recognize and disclose pension amounts in its financial statements.**
 - a. We recommend that you request from your pension plan administrators that the plans are calculated and presented in schedules for each employer's allocation percentage and collective pension amounts, and subject the schedules to audit.
 - i. It is our understanding that CalPERS are using their plan auditor's to report on the schedules to provide evidence that the pension amounts allocated to the employer and included in the employer's financial statement are not materially misstated for cost-sharing plans only.
 - ii. Please contact your pension provider to request a GASB 68 package. The allowable date for measurement date is within 12 months of your audited fiscal year end and 30 months and one day for the valuation date. For example; for June 30, 2015 audits CalPERS is using a June 30, 2013 valuation date and June 30, 2014 measurement date. Note: the measurement date chosen will need to remain consistent and applied for all future periods.
2. **Assess your internal control procedures over reporting pension retirement information.**
 - a. It is recommended that a form of reconciliation is made each pay period from the pension retirement plan data to the payroll system.
 - b. Provide assurance to us that the information provided to your pension plan provider, is not materially misstated.
 - c. The reconciliation provided by the local government to the pension plan's census data should be for the period covered in the expected GASB 68 valuation period. For example, CalPERS is expecting to use the June 30, 2013 valuation to provide GASB 68 reporting package information covering July 1, 2013 through June 30, 2014. Therefore, the reconciliation should be provided for the covered employees in fiscal year July 1, 2012 through June 30, 2013.



CERTIFIED PUBLIC ACCOUNTANTS

Mr. Geoffrey S. Kiehl
City of Palm Springs, California

Auditor Responsibilities:

3. **Develop an audit plan for auditing the pension information in the employer's financial statements and supplemental schedules.**
 - a. This includes assessing the population of your local government and verifying management's assertion of completeness that all employees within your local government that are eligible for pension plan benefits under your local government's employee contracts are accurately reported to the pension plan provider. *Note we will be assessing employees as of the valuation period utilized by the pension plan provider for GASB 68 reporting.
 - i. This includes obtaining a listing of all employees and performing test on the list for completeness.
 - ii. Performing test of the entire population for ineligibility and eligibility to the pension plans, which include Tier 1, Tier 2, or PEPRA eligibility for Miscellaneous and Safety plans.
 - iii. Based on the auditing standards required for assurance on the Net Pension Liability, we are estimating our sample between 50% and 80% of the total population, depending on risk and materiality.
4. **Develop an audit plan for key elements that attribute to the calculation of the Net Pension Liability reported on the financial statements and are included in supplemental schedules.**
 - a. The census data is key to pension plan provider's actuary in estimating the pension plan's Total Pension Liability.
 - b. Key elements of the census data will be audited for assurance of no misstatements, which could include testing of the following:
 - i. Date of birth, date of hire for years of service, gender, marital status, eligible compensation, class of employee, date of termination or retirement, spouse date of birth, and employment status (active, inactive, retired).
 - c. Based on the assumption that your pension plan's auditors are auditing the cost-sharing plan (will need a plan auditor's report), we will assess our need to test the census data of each cost-sharing plan through our test results of the previous step (#3 above).
 - d. For agent multiple-employer plans we will test a sample between 50% and 80% of the total population, depending on risk and materiality, specific to the census data provided by your pension plan in the GASB 68 reporting package.
5. **Audit the Discount Rate Calculation supplemental information for GASB 68 implementation.**
 - a. We will obtain the discount rate calculation and supporting schedules as of the plan year end. *This should be provided in your GASB 68 package from your pension plan provider.
 - b. We will verify components of the net position roll forward, such as;
 - i. Tracing beginning plan fiduciary net position to audited plan financial statements.
 - ii. Compare your local government's contribution in (future) year 1 to actual employer contributions in current year audited financial statements and determine reasonableness of subsequent year contributions.
 - iii. Compare your local government's employee contributions in (future) year 1 to actual employee contributions in current year audited financial statements and determine reasonableness of subsequent year contributions.
 - iv. Compare benefit payments (future) year 1 to actual employee contributions in current year audited financial statements.
 - v. Recalculate investment earnings based on long-term expected rate of return.
 - vi. Test mathematical accuracy of net position roll forward schedule.



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6. **Audit the deferred inflows and deferred outflows schedules.**

- a. We will obtain the schedule of deferred inflows and outflows related to the pension liability. **This should be provided in your GASB 68 package from your pension plan provider.*
- b. These schedules should include the following:
 - i. Differences between expected and actual experience with economic and demographic factors.
 - ii. Effect of changes in assumptions about future economic and demographic factors.
 - iii. Differences between actual and projected earnings on plan investments.
 - iv. Expense Recognition (Amortization) for deferred outflows and inflows of pension expense that is attributable to the changes in total pension liability.

Additional Pricing:

Pricing for additional procedures is guided by the additional hours required for testing your local government's pension plans. The additional hours are directly related to the sampling of the population and the number of plans. The population is directly related to the number of employees within your local government. Plans are assessed by the benefit packages. For example, a Miscellaneous Plan could have multiple benefit packages, resulting in multiple census data schedules and multiple GASB 68 reporting packages from pension plan administrators, which directly affect the population scope of the audit.

If at any time during the testing variances are noted it is required by *Auditing Standards* to assess the need for a specialist, such as an actuary. A specialist will need to be used to provide a valuation of the variance noted for the financial statements. This value will be required for us to provide an opinion on the financial statements. Any cost of the actuary will be passed to your local government and we will discuss this additional cost of a specialist ahead of time.

We will assess each of our engagements as of the last actuarial report and census data provided. We will contact you individually and provide a breakdown of our additional pricing. If large changes to benefits and membership are presented in the future, we will discuss any changes ahead of time with you directly. If you have any questions, please feel free to contact us directly.

Additional Price: **The price to perform the additional procedures as part of the audit will be \$12,000.**

Although not expected, if there are significant changes to benefits and membership of the plans, we will discuss the impact on fees with you prior to performing any additional procedures.

Sincerely,

Bryan S. Gruber, CPA
Partner