

STATE OF CALIFORNIA
OFFICE OF THE CONTROLLER



MINIMUM AUDIT REQUIREMENTS
AND REPORTING GUIDELINES
FOR
PUBLIC RETIREMENT SYSTEMS

INTRODUCTION

The following audit requirements are not intended to be a comprehensive audit program or check list of things to be completed during a retirement system audit. This is intended to include only the minimum requirements which the State Controller prescribes in conjunction with implementing Sections 7501-7504 of the Government Code.

The county auditor, certified public accountant or public accountant undertaking an audit of a public retirement system should:

1. Have sufficient knowledge and training to enable him to comply with generally accepted auditing standards.
2. Have an adequate knowledge of government accounting.
3. Have or acquire sufficient knowledge of pension accounting and actuarial science.

MINIMUM AUDIT REQUIREMENTS

The audit shall be made in accordance with generally accepted auditing standards. In meeting these standards, the following standards and procedures, although not all inclusive, should be considered:

1. A proper study and evaluation of the existing internal control and the financial organizational structure should be made. The purpose of the study is to decide how much the auditor can rely on internal control. Furthermore, it is used as a basis for determining the nature, extent, and timing of the audit tests to be applied in the examination of the financial statements.
2. Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under examination. If the internal control is so deficient that an auditor must qualify his opinion in this regard, the reason for this qualification must be set forth in the audit report.
3. The auditor should review the regulations applicable to the transactions of the retirement system. Should there be indications that the retirement system may have failed to comply with such legal requirements, the transactions should be referred to proper legal counsel for interpretation of applicable law. Noncompliance, if so determined, should be commented upon in the report and the auditor's opinion should be qualified or disclaimed if necessary.
4. A review should be made to see if the report of financial transactions to the State Controller as filed agrees with the official records of the system for the period covered by the audit.

MINIMUM AUDIT REQUIREMENTS
(Continued)

5. A review should be made of the previous audit report workpapers and program if available.
6. The auditor should ascertain the basis of accounting, that is: cash, accrual or modified accrual. The accrual basis of accounting should be employed to provide a fair and fully disclosed financial position for the retirement system.
7. The auditor should obtain confirmations from depositories for (1) all bank accounts, time certificates or savings and loan accounts, and (2) collateral securing such accounts, if applicable. Collateral should also be examined or confirmed with the depository holding the collateral as trustee. The auditor should determine the adequacy and propriety of the collateral pledged.
8. The collections and recording of all ascertainable revenues, such as employee retirement contributions and dividends from investments, should be tested during the period under audit. The test should be sufficient to determine that receipts have been recorded properly for the period.
9. The auditor should determine that expenditures were properly authorized and supported by proper documents.
10. A review should be made of nonrevenue receipts and non-expense disbursements to determine if they were legal and properly recorded.
11. All other assets such as investments, prepaid expenses, fixed assets and similar items should be verified in accordance with generally accepted auditing standards.
12. All liabilities should be verified in accordance with generally accepted auditing standards. Proper authorities should be contacted to ascertain existence of any possible contingent liabilities.

AUDIT REPORT REQUIREMENTS

1. The report shall state whether the financial statements are presented in accordance with generally accepted accounting principles.
2. The report shall state whether such principles have been observed in the current period in relation to the preceding period.
3. The audit report shall contain the footnote disclosures and supplementary information in accordance with Governmental Accounting Standards Board Statement 25.
4. The audit report shall contain an opinion regarding the fairness of the financial statements as enumerated by the State Board of Accountancy Rules 58.1 and 58.2¹. The types of opinions that may be expressed are:
 - a. an unqualified opinion
 - b. a qualified opinion
 - c. an adverse opinion
 - d. a disclaimer of opinion
5. The report should be based on fair value as described in GASB Statement 25. The net appreciation (depreciation) in the fair value of investments, as defined in GASB Statement 25 must be disclosed separately in the financial statements.

AUDIT REPORT FORMAT

It is suggested that the audit report be prepared in accordance with the following general format.

1. Title page
2. Table of contents
3. Scope, opinion and other necessary paragraphs

¹ 16 Cal. Adm. Code 58.1 - 58.2.

AUDIT REPORT FORMAT
(Continued)

4. Basic financial statements:
 - a. Statement of Plan Net Assets
 - b. Statement of Changes In Plan Net Assets
 - c. Notes to the Financial Statements
 - d. Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement 25.

Some of the supplementary information such as schedules, comments, and statistical tables are optional and often enhance the usefulness of a report. An agency-wide audit is acceptable if the audit report includes a pension fund Statement of Plan Net Assets, Statement of Changes In Plan Net Assets, and the required supplementary information in combining or individual fund financial statements. Appropriate footnotes are also required.

MANAGEMENT LETTER

Management of the retirement system has the responsibility for establishing and maintaining internal controls and checks. The auditor should issue a separate letter containing suggestions and recommendations relating to opportunities for improvement in the systems accounting and financial controls.

EXCERPTS FROM THE CALIFORNIA GOVERNMENT CODE
RELATING TO PUBLIC RETIREMENT SYSTEM REPORTS
TO THE STATE CONTROLLER

- § 7501 It is the intent and purpose of the Legislature, in enacting this chapter, to safeguard the solvency of all public retirement systems and funds. The Legislature finds and declares that public agencies maintaining retirement systems can benefit from periodic and independent analysis of their financial condition. It is the purpose of * * * Sections 7502, 7503, and 7504 to enable the State Controller to gather information to compare and evaluate the financial condition of such systems and to make such comparisons and evaluations.
- § 7502 The State Controller shall review the annual financial report of each state and local public retirement system submitted pursuant to Section 7504 giving particular consideration to the adequacy of funding of each system. The State Controller shall also review the triennial valuation of each public retirement system submitted pursuant to Section 7504 and shall give particular consideration to the assumption concerning the inflation element in salary and wage increases, mortality, service retirement rates, withdrawal rates, disability retirement rates, and the rate of return on total assets.
- The State Controller shall establish an advisory committee which shall include enrolled actuaries, as defined in Section 7504, and state and local public retirement system administrators, to assist in carrying out the duties imposed by this section.
- § 7503 All state and local public retirement systems shall prepare an annual report in accordance with generally accepted accounting principles.

EXCERPTS FROM THE CALIFORNIA GOVERNMENT CODE
RELATING TO PUBLIC RETIREMENT SYSTEM REPORTS
TO THE STATE CONTROLLER
(Continued)

§ 7504

(a) All state and local public retirement systems shall, not less than triennially, secure the services of an enrolled actuary. An enrolled actuary, for the purposes of this section, means an actuary enrolled under subtitle C of Title III of the Employee Retirement Income Security Act of 1974 and who has demonstrated experience in public retirement systems. The actuary shall perform a valuation of the system utilizing actuarial assumptions and techniques established by the agency which are, in the aggregate, reasonably related to the experience and the actuary's best estimate of anticipated experience under the system. Any differences between the actuarial assumptions and techniques used by the actuary which differ significantly from those established by the agency shall be disclosed in the actuary's report and the effect of such differences on the actuary's statement of costs and obligations shall be shown.

(b) All state and local public retirement systems shall secure the services of a qualified person to perform an attest audit of the system's financial statements. A qualified person means any of the following:

(1) A person who is licensed to practice as a certified public accountant in this state by the State Board of Accountancy.

(2) A person who is registered and entitled to practice as a public accountant in this state by the State Board of Accountancy.

(3) A county auditor in any county subject to the County Employees Retirement Law of 1937.

(4) A county auditor in any county having a pension trust and retirement plan established pursuant to Section 53216.

EXCERPTS FROM THE CALIFORNIA GOVERNMENT CODE
RELATING TO PUBLIC RETIREMENT SYSTEM REPORTS
TO THE STATE CONTROLLER
(Continued)

§ 7504
(Cont'd)

(c) All state and local public retirement systems shall submit audited financial statements to the State Controller at the earliest practicable opportunity within six months of the close of each fiscal year. However, the State Controller may delay the filing date for reports due in the first year until such time as report forms have been developed which, in his judgment, will satisfy the requirements of this section. The financial statements shall be prepared in accordance with generally accepted accounting principles in the form and manner prescribed by the State Controller. The penalty prescribed in Section 53895 shall be invoked for failure to comply with this section. Upon a satisfactory showing of good cause, the State Controller may waive the penalty for late filing provided by this subdivision.

(d) The State Controller shall compile and publish a report annually on the financial condition of all state and local public retirement systems containing, but not limited to, the data required in Section 7502.

§ 53216

The Legislative body of a local agency may establish a pension trust funded by individual life insurance contracts, individual annuities, group policies of life insurance, or group annuities, or any one or combination of them, or by any other investment authorized by this article for the benefit of its officers and employees.

The legislative body of a local agency may make participation in any plan under such pension trust optional with the officers and employees of the local agency or it may make participation in such pension trust plan compulsory for the officers and employees of such agency.

Officers and employees who participate in such pension trust plan, whether it is optional or compulsory, shall have their plan contributions deducted from their compensation.

EXCERPTS FROM THE CALIFORNIA GOVERNMENT CODE
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(Continued)

§ 53216

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§ 53895

(a) An officer of a local agency who fails or refuses to make and file his or her report within twenty days after receipt of a written notice of the failure from the Controller shall forfeit to the state * * *

(1) One thousand dollars (\$1,000), in the case of a local agency with total revenue, in the prior year, of less than one hundred thousand dollars (\$100,000), as reported in the Controller's annual financial reports.

(2) Two thousand five hundred dollars (\$2,500) in the case of a local agency with total revenue, in the prior year, of at least one hundred thousand dollars (\$100,000) but less than two hundred fifty thousand dollars (\$250,000), as reported in the Controller's annual financial reports.

(3) Five thousand dollars (\$5,000) in the case of a local agency with total revenue, in the prior year, of at least two hundred fifty thousand dollars (\$250,000), as reported in the Controller's annual financial reports.

(b) Upon the request of the Controller, the Attorney General shall prosecute an action for the forfeiture in the name of the people of the State of California.