ACCOUNTING, COMPLIANCE REPORTING & RECORDKEEPING

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OBJECTIVES

• Define basic financial accounting terms
• Explain the purpose of a financial audit and recognize different auditing reports
• Appreciate the importance of interim accounting and internal controls
• Understand the difference between the IDOI Compliance Report and the Municipal Compliance Report
• Carry out basic recordkeeping tips

ELEMENTS OF FINANCIAL ACCOUNTING

• Assets: What is owned
• Liabilities: What is owed to others
• Equity: What is owed to the owners
• Pension Equity: Net plan assets held in trust for pension benefits
• Accounting Equation: assets = liabilities + equity
• Income: Money coming into the pension fund
• Expense: Money going out of the pension fund
• Balance Sheet: Report as of specific date
• Income Statement: Report for a period of time
• Generally Accepted Accounting Principles (GAAP): Used to prepare all financial statements thus making all statements comparable
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**Financial Audits/Annual Financial Statements**

- Conducted by independent CPA
- To render an opinion on compliance with GAAP
- Includes a review of internal controls
- Includes a review of employer contributions (property taxes)
- Brings together actuarial information and financial reporting
- Includes schedule of employer contributions required and made (6-year Trend Table)
- Funded status (6-year Trend Table)
- Includes confirmation with bank/brokers of all cash and investment balances
- Four risks analyzed (interest rate, credit, custodial and concentration of credit)
- Issuance of a management letter to the pension board

**Statement of Plan Net Assets**

**Statement of Changes in Plan Net Assets**
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**Interim/Monthly Accounting**

- Strongest feature of internal control
- Detects errors and irregularities in a timely and regular fashion
- Knowledgeable individual to review transactions on a monthly basis
- Interim/monthly financial services include:
  - Reconciliation of all bank accounts and accounting for all investment transactions, posting of cash receipts and disbursements, posting and maintenance of general ledger, issuance of vendor checks, posting benefit transactions
- Preparation of interim / monthly financial statements include:
  - Accountant’s Compilation Report, Schedule of Cash and Investments, Statement of Net Assets and Changes in Net Assets, Schedule of Member Contributions, Schedule of Monthly Pension Benefits, Check Register, etc.
Internal Controls

- Internal controls are procedures put into place in order to reduce the likelihood of wrong-doing
  - Example of good internal controls
    - The pension fund has a checking account with less than $100,000 that requires two authorized signors to execute a transaction.
  - Example of poor internal controls
    - The pension fund has a checking account with $1,000,000 that requires one authorized signor, of which can be the same person who reconciles the checkbook.

Annual IDOI Compliance Report

- Security administrator
- Board members
- Financial statements
  - Assets, revenues, expenses
  - Schedules A – K
- Participant information
  - Schedule P: active members, retired members, inactive/terminated members
- Interrogatories
- Signature sheet

IDOI Report Interrogatories
IDOI Report Signature Sheet

IDOI Compliance Audit

- Completed by the IDOI every three years
- May be requested to be completed more frequently
- A detailed review by Compliance Officer to determine whether or not the fund is in compliance with all state statutes
  - Benefit calculations and verification of salary and creditable service
  - Review of employee contribution deduction rates
  - All transcribed minutes are read through to ensure compliance with the Open Meetings Act
  - Report issued that lists deficiencies and discrepancies

Municipal Compliance Report

- Effective August 2008, required to be submitted to Municipality in time for Budget
  - Police - 40 ILCS 5/3-143
  - Fire - 40 ILCS 5/4-134
- Report includes nine items for police and ten items for fire
- Difference is item #5 for fire – “The Increase in Employer Pension Contributions” for benefit increases that were passed in 2004
- Other items in the report include:
  - Total Assets of the Fund, Estimated Revenues, Estimated Expenses, Annual Required Contribution, Total Net Income From Investments for Two Most Recent Years, Total Number of Active Member Contributing to Fund, Total Amount Disbursed for Each Type of Pension Benefit, Funded Ratio, Unfunded Liability, and Investment Policy
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ARTICLE 3 (POLICE) LIST

Notable difference - #5:
“the increase in the employer pension contributions that results from the implementation of the provisions of this amendatory Act of the 93rd General Assembly”

ARTICLE 4 (FIRE) LIST

MINUTES

• Written/transcribed minutes must be kept for all meetings (four annually)
  – Minutes must include:
    • Date, time, location, members present/absent, summary of all matters
    • Roll call vote for any disbursement of funds
  – Website: agenda and minutes are required to be posted
• Closed session minutes
  – Required to be kept word for word on tape
  – Reviewed every six months to determine if it is still confidential or should be made available to the public
**Participant Files**

- Active members
  - Completed application, birth certificate, marriage license/certificate, spouse birth certificate, dependent(s) birth certificate(s), member contribution summary, breaks in service, portability (police) or reciprocity (fire) documentation
- Retired members
  - All of the above
  - Divorce decrees/QUILDRO, calculation of benefits and all supporting documentation, date and calculation of benefit increases, dates and calculations of increases to children’s pensions, and disability documents (application, annual physicals, potential date of conversion)

**Conclusion**

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