

Michigan Committee on Governmental Auditing and Accounting

(Unofficial) Meeting Minutes

Thursday, July 25, 2019 at 10:00 a.m.

CALL TO ORDER

Cary Vaughn called the meeting to order at 10:05 a.m.

ROLL CALL

Members Present:

Rod Taylor

Cary Vaughn

Bill Tucker

Rana Emmons

Michelle Watterworth

Stephen Blann

Nick Brousseau

EXECUTIVE DIRECTIVE 2019-11, ENCOURAGING TRANSPARENCY IN STATE GOVERNMENT

Open Meetings Act

a. Post meeting dates and minutes to website, etc.

Rod Taylor sees no impact to having the meeting dates and minutes posted to the website. The consensus of the committee is to comply and will post the meeting dates and minutes to the website beginning with the next meeting. The question came up about Treasury being as transparent as possible and will be posting all data on the open meetings portal. The committee discussed the continuation of the meetings being housed at Maner Costerisan. Bill Tucker spoke to his supervisor and due to the Open Meetings Act, they can't accommodate the committee meetings in the future. The consensus of the committee was to move the meetings to the Department of Treasury in the Austin Building in downtown Lansing in the future. The next scheduled meeting will be held on October 17, 2019 at 10:00am at the Richard H. Austin Building, 430 W. Allegan Street, Lansing, MI 48922. At the October meeting the committee will discuss future dates of their meetings to put together a schedule for 2020.

b. Public Comment session before each revision of the UCA

Rana Emmons is concerned it will turn into a 101 session for the public as they won't understand a lot of the terminology and information being addressed at meetings. The consensus of the committee was to not allow a public comment before each UCA revision.

Uniform Chart of Accounts

- a. Issue timeline with plans of UCA including minor and major revision dates, etc.
The timeline is issued to help people keep track of all revisions. All are in favor of issuing a timeline and being posted to the website.

LEAN PROCESS IMPROVEMENT

The Community Engagement & Finance Division went through a Lean Process Improvement and is now seeking feedback from customers and outside entities regarding improving our process in which they are affected in their daily job duties. Stephen Blann would like to see the F65 be updated to remove the Pension/OPEB portion. There are too many forms that ask for the same information. They would also like to see the F65 have the capability to have multiple people logged into the same account at the same time. There was also talk about changing the APR as well.

TREASURY GUIDANCE

Manuals to update

A timeline was given to the committee to review and possibly revise each manual as needed.

- Audit Manual: last revised in February 2012. Would like to consider revising in October 2019.
- Audit Manual for Road Commissions: last revised in October 2003. Would like to consider revising in October 2019.
- Uniform Reporting Format: last revised in July 2011. Would like to consider revising in January 2020.
- Accounting Procedures Manual: last revised in July 2007. Would like to consider revising in April 2020.
- Budget Manual: last revised in August 2001. Would like to consider revising in April 2020.
- Audit Guide for Transportation Authorities: last revised in June 2007. Would like to consider revising in July 2020.

The committee agreed to start working on the revisions of the Budget Manual first as that hasn't been updated since 2001. Michelle Watterworth and Stephen Blann will talk to the MGFOA to recruit their help in revising the Budget Manual. The committee also agreed to review the Audit Manual and would like everyone to come to the next scheduled meeting in October with their ideas on revising it.

GASB 75, ACCOUNTING AND FINANCIAL REPORTING FOR OPEB

How a local unit is supposed to calculate the discount rate (cross over point, etc.) with different examples/scenarios including if locals can use smoothing in the generation of some of the uniform assumptions.

Stephen Blann reviewed calculating the discount rate with the committee as follows: While GASB 75 requires the discount rate to be expressed as a single rate, that rate is based on two calculations:

1. For periods in which assets held in an OPEB trust are sufficient to make benefit payments, the rate is based on the long-term expected rate of return on OPEB plan investments.
2. For periods after any such OPEB plan investments are projected to be exhausted, the rate is based on a "risk-free" rate of return (an index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher).

In order to make these calculations, it is important for governments (or their actuaries) to prepare a cash flow projection that accounts for all anticipated contributions and benefit payments to be made for *current* plan participants. Even though it may be reasonable to assume that additional plan participants will be hired in the future, for the purposes of this analysis, the cash flows must be limited to those individuals already in the plan.

The long-term expected rate of return (LTEROR) is based on the specific investment strategies of the government and may be developed by the government with assistance from its investment advisor. The LTEROR should consider estimates of future returns, weighted for the government's actual investment strategy. OPEB plans with more conservative investment strategies should expect to report a lower LTEROR. OPEB plans with more aggressive investment strategies may report a higher LTEROR but may also expect greater volatility in their annual investment returns.

For years in which OPEB plan investments are projected to be insufficient to cover benefit payments, the GASB calls for use a "yield or index rate" for 20-year AA municipal bonds. While the GASB didn't specify any particular index rate by name, options include rates published by the Bond Buyer, S&P and Fidelity. One helpful resource for obtaining these rates is:

<http://www.bartel.associates.com/resources/select-gasb-67-68-discount-rate-indices>.

Once a cash flows projection is prepared (typically for up to 99 years to ensure all active plan participants have fully exhausted their projected benefit payments), the process of calculating a single rate is to select the LTEROR for each year with projected plan assets, and the risk-free rate for all remaining years, and then to average them together. For a well-funded plan, it is possible to never need to use the risk-free rate of return. For an unfunded plan, it is possible to never need to use the LTEROR. Many plans will need to calculate a single rate as illustrated in the 2 samples attached.

GASB 84, CHANGES TO CHART OF ACCOUNTS

- Fund 701 - General Agency Fund: Suggested change: Name change from General Agency Fund to General Custodial Fund. *All in favor to make the change.*
- Fund 704 - Imprest Payroll Fund: Suggested change: Eliminate the fund and require to be reported in the general fund. *Stephen Blann's recommendation to say this fund may optionally be used during the year but for external reporting purposes, any remaining balances reported at year end may be reported in the general fund. All in favor to keep the fund alive.*
- Fund 710 - District (Municipal) Court Trust Fund: Suggested changes: Name change from District (Municipal) Court Trust Fund to District (Municipal) Court Custodial Fund. Adjust description to state: fees and fines collected on behalf of remitted to other units of government. Bond and restitution are determined by the court which represents administrative control; accordingly, these would be recorded in the general fund of the court. *All in favor to make the changes.*
- Fund 711 - Probate Court Trust Fund: Suggested changes: Name change from Probate Court Trust Fund to Probate Court Custodial Fund. Adjust description to state: fees and fines collected on behalf of and remitted to other units of government. Bond and restitution are determined by the

court which represents administrative control; accordingly, these would be recorded in the general fund of the court. *All in favor to make the changes.*

- Fund 712 - Trial Court Trust Fund: Suggested change: Name change from Trial Court Trust Fund to Trial Court Custodial Fund. *All in favor to make the change.*
- Fund 714 - Inmates' Trust Fund: Suggested change: Name change from Inmates' Trust Fund to Inmates' Custodial Fund. *All in favor to make the change.*
- Account 401 (Taxes Control): Suggested change: Adjust description to state: These accounts are available for the use in fiduciary activities. Taxes collected on behalf of another local unit should be recorded within the account that most appropriately describes the collection. *All in favor to make the change.*
- Accounts 665 (Interest), 666 (Dividends), 669 (Investment Gains and Losses), 674 (Private Contributions and Donations): Suggested change: Adjust description to state: This account is available for the use in fiduciary activities. *All in favor to make the change.*
- Account 686 – Open for Other Revenue: Suggested changes: Name change from Open for Other Revenue to Miscellaneous Other Revenue (Fiduciary Additions). Adjust description to state: This account is available for the use in fiduciary activities. *Stephen Blann suggested not using the word Revenue and instead use the word Additions. This can be pointed off in the future. Suggestion made to have more Open for Other Additions Accounts.*
- Account 682 – Open for Other Revenue: Suggested changes: Name change from Open for Other Revenue to Capital Shares Sold. Adjust description to state: This account is available for the use in fiduciary activities. *The committee suggested not using the word Revenue and instead use the word Additions.*
- Account 683 – Open for Other Revenue: Suggested changes: Name change from Open for Other Revenue to Reinvested Distributions. Adjust description to state: This account is available for the use in fiduciary activities. *The committee suggested not using the word Revenue and instead use the word Additions.*

- Account 684 – Open for Other Revenue: Suggested changes: Name change from Open for Other Revenue to Shares Redeemed. Adjust description to state: This account is available for the use in fiduciary activities. *The committee suggested not using the word Revenue and instead use the word Additions.*
- Account 717 – Defined Benefit Pension Plan Contributions: Suggested changes: Move to 873. Adjust description to state: This account is available for use in fiduciary activities. *Stephen Blann and Michelle Watterworth suggests removing this account.*
- Account 723 – Retiree Health Care – OPEB: Suggested changes: Move to 874. Adjust description to state: This account is available for the use in fiduciary activities. *Stephen Blann and Michelle Watterworth suggests changing the name to Retiree Benefit Payments.*
- Account 803 – Administrative Services: Suggested change: Adjust description to state: This account is available for the use in fiduciary activities. *All in favor to make the change.*
- Account 964 – Refunds and Rebates: Suggested change: Adjust description to state: This account is available for use in fiduciary activities. *All in favor to make the change.*
- Account 950 – Open: Suggested changes: Name change from Open to Tax Disbursement-Custodial Funds Only (Fiduciary Deductions). Adjust description to state: This account is available for the use in fiduciary activities. *All in favor to make the changes.*
- Account 951 – Open: Suggested changes: Name change from Open to Fees Disbursements-Custodial Funds Only (Fiduciary Deductions). Adjust description to state: This account is available for the use in fiduciary activities. *All in favor to make the changes.*

GASB 84, IMPACT ON PENSION AND OPEB PLANS

Michelle Watterworth informed the committee of the potential implications GASB 84 will have on certain pension/OPEB plans, specifically single employer systems.

Under GASB 84, if the primary government doesn't appoint a voting majority of the board of the plan system, it is likely that the system does not meet the

definition of a component unit, unless the fiscal dependency criteria is met, which would be rare. If the system is not deemed to be a component unit, the only way it would come into the primary government's financial statements under GASB 84 would be if the primary government were deemed to have control of the assets. For some plans, the retirement system truly is separate from the primary government and the PG would NOT have control under GASB 84. Therefore, GASB 84 would tell you NOT to report these plans within the plan sponsor's financial statements.

Michelle states, "We already know of a number of examples where this is going to be the case. In some instances, those plans already have separate audits, so I wouldn't suspect there to be any issues here from a PA 2 of 1968 perspective. In other cases, however, those plans have not traditionally been audited separately. Those plans now would have to engage an auditor to perform an audit of their plan, separate from the audit of the plan sponsor/primary government. I would hope all plans would do so, but I could see there might be some discussion surrounding whether or not it is required."

The committee was all in agreement that Treasury needs to issue a reminder regarding GASB 84's impact on pension/OPEB plans and the fact that they may still need to have an audit done. Cary Vaughn is going to put some verbiage together to send out to the group to get their thoughts prior to issuance.

ROAD COMMISSION ACCOUNTING MANUAL

Cary Vaughn gave an overview of the suggested changes that Treasury would like to have done to the Road Commission Accounting Manual. The rough draft is already out and once it gets published there will be other meetings to discuss more revisions including some on a larger scale. Cary has asked for feedback from the Committee on the suggested changes.

- A. There will be another meeting to discuss larger issues that we found that may not comply with GAAP.
- B. Updated some of the accounts to be more in line with the Uniform Chart of Accounts.
- C. Page 165 – Removed references to the Bulletin for Audits of County Road Commissions in Michigan.
 - a. Outdated and we should probably put it in the accounting manual
- D. Page 169 – Removed example financial statements.

MISCELLANEOUS

Rod Taylor informed the committee members of the Treasury's Fall Summit that will take place on September 16, 2019 at the Lansing Center.

ADJOURNMENT

The Michigan Committee on Governmental Auditing and Accounting meeting adjourned at 11:56 a.m.

DRAFT