

The Honorable Eric R. Papenfuse, Mayor  
and Honorable Members of City Council  
City of Harrisburg, Pennsylvania

In planning and performing our audit of the financial statements of the City of Harrisburg (City) as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

We reported on internal controls and their operation to the management of the City in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* dated September 26, 2016, and in the Independent Auditor's Report on Compliance for the Major Program and on Internal Control over Compliance Required by the Uniform Guidance dated September 26, 2016. However, during our audit we became aware of several other matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated September 26, 2016 on the financial statements of the City.

The City's written responses to the internal control issues identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

We have already discussed these comments and suggestions with various City personnel. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of the audit committee, management, the Honorable Mayor, Members of City Council, and others within the City, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Maher Duessel*

Harrisburg, Pennsylvania  
September 26, 2015

## **ACCOUNTING FOR ANCILLARY COSTS ASSOCIATED WITH CAPITAL ASSETS CONSTRUCTED BY THE CITY**

As noted in the December 31, 2005 through December 31, 2014 audits, Governmental Accounting Standards Board (GASB) Statement No. 34 requires that the City track all capital assets, including infrastructure assets (roads, bridges, traffic signals, etc.). In addition to the hard cost of materials used for the construction of capital assets, the City is to capitalize any internal costs necessary to place the capital asset into its intended use. Therefore, should the City construct capital assets, the cost of labor, benefits, etc., should be included in the capitalized cost of the capital asset. We recommend that the City develop a policy to assist in capturing the ancillary costs for all capital assets constructed or put into place by the City.

**Management's Response:** The City concurs and will endeavor to develop and implement appropriate procedures needed to capture and capitalize such costs.

## **INVENTORYING CAPITAL ASSETS**

As noted in the December 31, 2007 through December 31, 2014 audits, no physical inventory has been taken since 2005. In that year, the accounting department provided each department head with a list of capital assets for their department. The department heads were to review the list for any obsolete assets or assets that were disposed. Further, when infrastructure capital assets are replaced, the replaced assets are not being removed from the capital asset inventory unless the department head completes a disposal form.

In addition, the Accounting Manager is responsible for entering all capital asset additions into the Capital Assets System based on expenditures/expenses recorded in the capital expenditure accounts for the various funds. There is no review or reconciliation of the amounts entered into the Capital Asset System by anyone other than the Accounting Manager.

We recommend that the City inventory its capital assets on an annual basis so that disposals and additions are properly accounted for. The capital assets per the books should reconcile to the inventory of capital assets held by the City's departments. Additionally, the capital asset inventory should periodically be compared to insurance policies, to verify the completeness of the inventory. Finally, we recommend that someone other than the Accounting Manager review the information entered into the Capital Assets System for accuracy.

**Management's Response:** The City concurs and will endeavor to develop and implement appropriate procedures in order to inventory its capital assets periodically, so that additions, transfers, and disposals are properly documented and accounted for.

## **DEVELOPING FORMAL PROGRAM AND SYSTEM CHANGE CONTROL POLICIES AND PROCEDURES**

As previously noted in the December 31, 2005 through December 31, 2014 audits, the Bureau of Information Technology (IT) performs program development, operating system maintenance, and application software maintenance on the City's information technology systems. IT management maintains close oversight over the change control process, but more formalized documentation is recommended to reduce the risk of unauthorized changes being made to the City's information

technology systems. The risk of unauthorized changes being made to information technology systems and programs could result in processing errors and system down-time. We recommend that a comprehensive written policy be developed that outlines all the procedures and documentation required for changes to the City's information technology systems and programs. The policy should follow the system development life cycle methodology to include the following:

- Preparation of written requests.
- Approval of the request by management.
- Required documentation standards.
- Testing of the changes, follow-up of discrepancies, and participation and approval by users.
- Procedures for integrating the changes into the production environment from a separate test environment.

**Management's Response:** The City concurs with the recommendation, and will implement a change control process. The process will include written requests from the owner and an approval process of the request by management. As part of the development process, documentation will be required, as well as a formal testing process, with follow-up for defects and discrepancies. The City will institute a deployment process, which will include the procedures for implementing in the production environment. This is a major shift in the legacy operation of our City and its IT department. The City anticipates that this can be done with a combination of internal and vendor staff, and will require support from City leaders to change the common process in use today. It may require external resources, which will likely require approved budgetary funding. The City anticipates a plan for this to be completed by the end of 2016 and implementation of the components of that plan to be completed by the second quarter of 2017.

#### **DEVELOPING A POLICY FOR MONITORING NETWORK ACTIVITY**

As previously noted in the December 31, 2005 through December 31, 2014 audits, IT is responsible for monitoring network activity and responding to potentially suspicious activity occurring within the network. There is currently no Intrusion Detection System that would allow monitoring of both internal and external traffic on a real-time basis. IT would not know if the network is being used maliciously until after a security breach has occurred. We recommend that an Intrusion Detection System be installed to monitor network activity.

**Management's Response:** The City concurs with the recommendation. While the City will be able to author a policy for monitoring network activity, the implementation of the policy will need to leverage external expertise and best practices. The City recommends the use of a third-party tool for monitoring of network activity, along with an internal or external resource for identification and investigation of suspicious activity. The City does not currently license a monitoring tool, nor currently has an internal resource that is trained in the area of security monitoring and investigation. The City recommends that a cost analysis be performed to determine the investment needed to implement this recommendation. This analysis can be documented by the end of the 2016 fiscal year.

#### **PROVIDING COMPUTER EMPLOYEE TRAINING**

As previously noted in the December 31, 2005 through December 31, 2014 audits, IT currently has seven employees. There is currently limited training scheduled. It is extremely important for IT staff to be trained on the hardware and software changes occurring in the City's computer environment. If the IT

staff is not trained properly, this could result in vulnerabilities, poor employee performance, and downtime. We recommend that a training schedule be established for all IT staff as the budget permits.

**Management's Response:** The City concurs with the recommendation. The City will evaluate the current skills of the information technology employees against the current and future needs of the department. These will include technical skills, as well as "soft skills" for each role. The City will document the gaps in skills for the employees, as well as options for training. Training options will include both on-line and classroom based. The training assessment and recommendation document can be completed by the end of the 2016 fiscal year. As identified in the recommendation, the training schedule and implementation of the training plan will be dependent on funds available in the budget.

### **DEVELOPING A TECHNOLOGY DISASTER RECOVERY PLAN - NETWORK SERVERS**

As previously noted in the December 31, 2010 through December 31, 2014 audits, an information technology disaster recovery plan describes the procedures necessary to recover from an abnormal disruption in computerized operations. The objectives of disaster recovery are: to ensure that the City's information technology personnel are sufficiently prepared and trained in the event of a disaster; to minimize the effects upon the City's other operations; and to establish an alternate means of restoring normal information technology operations within a short period of time. The scope of a disaster recovery plan should cover the following issues:

- Identification of critical information technology systems relevant to the daily operations of the City
- An assessment of the vulnerability and security of each critical information technology system
- Disaster declaration and notification procedures and assignment of responsibilities to personnel
- Procedures for restoration of critical information technology systems
- Back-up and storage procedures for critical information technology systems
- Any required testing of the plan's disaster recovery procedures to ensure that the plan will function as intended
- An inventory of all critical information technology assets
- A list of employee and vendor contacts

There is no written disaster recovery plan for the City's network servers. In addition, although a written disaster recovery plan exists for the City's mainframe computer systems, the plan has not been tested since November 2009. In addition, in January 2012, the City terminated its "Hot Site" contract which provided a disaster recovery site along with a set amount of time each year to test the mainframe recovery. Even though the contract was terminated, a recovery site is still available to the City, but arrangements would need to be made to utilize the site each time an event occurs.

We recommend that the City prepare a written disaster recovery plan that covers the network servers under the City's control and that the plan for both systems be tested periodically.

**Management's Response:** The City concurs with the auditor's comments and recommendations. Due to the City's severe financial distressed status under provisions of Act 47, the original Act 47 Coordinator's Financial Recover Plan filed in 2011 called for the City to discontinue its contract with its Mainframe disaster recovery services provider and related off-site back-up and storage arrangements until further notice, so funding allocated in the 2011 Budget for this purpose was not utilized. Consequently, no funding was requested nor provided for the Information Technology Network subsequent to 2011.

However, the City will document a disaster recovery plan to cover the issues outlined above. This plan will be developed by the first quarter of the 2017 fiscal year. Implementation of the plan will depend on vendor evaluation, as well as availability of funds and internal or external resources with the necessary skills identified in the plan.

### **MAINTAINING DOCUMENTATION FOR APPROVAL OF JOURNAL ENTRIES**

Certain journal entries are prepared by the Accounting Manager and reviewed by the Finance Director. Approval of the journal entry is noted either by the reviewer initialing the cover page of the journal entry or via email. During our testing of journal entries, it was noted that the year-end journal entries were approved by the Finance Director via email; however, the email approval was not maintained with the actual journal entry. In order to substantiate approval of all journal entries, we recommend that the City document approval of all journal entries either by physical signature on the cover page of the journal entry or via email documentation maintained with the journal entry.

**Management's Response:** The City will continue to maintain its accounting policy of subjecting all prepared journal entries with documented approval for posting to the general ledger. Timing delay in the approval process for the 2015 year-end audit preparation entries was encountered due to the temporary, but rather lengthy, failure of the network drive at very critical moments when adjusted fund trial balances and supporting workpapers needed to be made available relative to the planned audit timeline and schedule.

### **REVIEWING SERVICE ORGANIZATION REPORTS**

As previously noted in December 2103 and 2104 audits, the City has a service organization (EZ Pay) that processes receipts on behalf of the City for online and telephone payments. Service organizations may have a Statement on Standards for Attestation Engagements (SSAE) No. 16 report prepared annually. This is a report that provides an evaluation of the organization's internal control over the processing of transactions. In order to monitor the City's service organization, we recommend that the City request and review the SSAE No. 16 report on an annual basis and take appropriate action based on the report's findings, if any.

In addition, during our review of the SSAE No. 16 reports for the City's other service organizations, we noted that Express Scripts received a qualified opinion based on the fact that controls related to authorization and independent verification of pharmacy information entered into the system were not operating effectively during the period December 1, 2014 through October 31, 2015. As the City did not review the SSAE No. 16 reports, the City was not aware of this control deficiency and, therefore, did not monitor the deficiency or follow up with the service organization. We recommend that the City obtain the SSAE No. 16 reports from all service organizations, review the reports for opinion modifications or other issues, and follow up with the service organizations, as necessary, to address any issues.

**Management's Response:** The City concurs and will take the appropriate actions in order to address as is necessary.

### **COMPLYING WITH THE BLOOD LEAD TESTING REQUIREMENTS**

As previously noted in the December 31, 2014 audit, in accordance with the Department of Housing and Urban Development Docket Number FR-5415-N-11, Blood Lead testing is a requirement of the Lead-

Based Paint Hazard Control Program. Each child under six years of age should be tested for lead poisoning within the six months preceding the lead hazard control work. Any child with an elevated blood lead level must be referred for appropriate medical follow-up. However, the parent does have the ability to opt out of the testing. During the audit for the year ended December 31, 2015, it was noted for the three case files tested, that there was no documentation noting whether a child under six years of age was present in the home and, if so, whether the child was tested for lead poisoning. In order to comply with the Lead-Based Paint Hazard Control Program grant, we recommend that the City maintain proper documentation as to whether a child under six months of age was present in the home and if that child had blood lead testing or if the parent opted out of the testing.

**Management's Response:** In 2015, the City did not have an active Lead-Based Paint Hazard Control program and was finishing out 2014 without a Lead Nurse/Risk Assessor required to create the proper documentation. A Lead Nurse/Risk Assessor has been subsequently hired and is responsible for the effectuation of this program. The City is currently waiting for final legal approval for an addendum for the Risk Assessor's contract needed in order to fully comply with the grant requirements.

#### **CONVERTING VACATION CARRYOVER BALANCES FOR FIREFIGHTERS**

As previously noted in the December 31, 2014 audit, based on the City's vacation policy for firefighters, at year-end, accrued vacation is to be converted to holiday pay. During our testing of compensated absences, it was noted that 30 firefighters had accrued vacation balances at December 31, 2015 that had not been converted to holiday time. In order to ensure that compensated absences are properly reflected for firefighters, we recommend that the City follow its policy as it relates to accrued vacation for firefighters.

**Management's Response:** In 2014, the vacation leave earning rates for new hires changed from 12 to 8 days, with the implementation of the amendments to the Collective Bargaining Agreement approved in late 2013. However, the leave system calculation program continued to credit the new hires with the prior earning rate. Upon discovering this error, the City was unable to convert the vacation carryover balances until IT was able to make adjustments to the program. The corrections were completed in July of 2016.

#### **ESTABLISHING PROPER CUT-OFF PROCEDURES**

As previously noted in the December 31, 2014 audit, expenditures/expenses and related liabilities should be recorded in the period for which they are incurred. During our testing of subsequent disbursements, we noted two invoices that were for services performed during the years ended December 31, 2015 and December 31, 2016. When invoices for services overlap two calendar years, the expenditure/expense should be allocated accordingly to each year. As a result, accounts payable and expenditures were understated by \$40,142 in the Community Development Block Grant Fund for the year ended December 31, 2015. We recommend that the City review its cut-off procedures and ensure that they are followed consistently.

**Management's Response:** The City concurs with the recommendation.

#### **ESTABLISHING AN IMPROVEMENTS FUND**

As previously noted in the December 31, 2014 audit, per the acquisition agreement with Senators Partners, LLC, the City is required to establish an Improvements Fund on or before December 1, 2013.

On or before December 1, 2013 and on or before December 1 of each calendar year thereafter, the City is to deposit \$25,000 into the Improvements Fund. The Improvements Fund is to be created to ensure that a threshold amount of funds are available to pay for capital improvements for the premises or the stadium. The Improvements Fund was not created as of December 1, 2013 and was not funded during the years ended December 31, 2014 and 2015. We recommend that the City review the terms of the acquisition agreement regarding the establishment of the Improvements Fund and fund the Improvements Funds as required in the agreement.

**Management's Response:** A City-led legal review which began in 2014 has been completed and the City will comply, commencing with fiscal year 2017.

### **RECORDING PROPERTY TAX REVENUE**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. During testing, we noted that real estate tax collections of \$273,557, received in January 2016, were recorded as unavailable revenue, rather than being recognized as revenue as of December 31, 2015. We recommend that the City follow its policy and that collections received within 60 days of year-end be recognized as current year revenue.

**Management's Response:** After further review and related discussion with our auditors, a better understanding has been achieved in that property tax collections received by the City during the first two-thirds of January, in addition to the delinquent real estate taxes received from the County in January and February, need to be recognized as prior year revenue. The involved audit preparation workpaper calculation for 2015 did not take into account such tax collections received in the first two-thirds of January, 2016 (\$248,764 in flat amounts and \$24,793 in penalty amounts), thus resulting in General Fund unavailable revenue being credited or increased by \$165,465 when it should have been debited or reduced by \$108,092.

### **RECORDING FIRE ESCROW ACCOUNT ACTIVITY**

The Office of the Treasurer maintains control of the fire escrow cash account. Transactions are recorded in Pentamation, the City's general ledger system, only when such information is provided to Financial Management. During our testing of the fire escrow account, we noted that various transactions that occurred during the year ended December 31, 2015 were not recorded in Pentamation. In addition, transactions dating back to 2013 were not recorded in Pentamation and remain as reconciling items on the fire escrow account bank reconciliation. In order to ensure that all activity of the fire escrow account is properly recorded, we recommend that all transaction information be provided to Financial Management on a periodic basis for recording in Penatmation.

**Management's Response:** It appears that the checks issued during the first six months of 2015 were not recorded. Reimbursement of Fire Escrow Funds is calculated and checks issued by the Deputy Treasurer. Checks are signed by Treasury's Auditor and posted to the system by the Assistant Deputy Treasurer. The findings show that this last part was missing. Treasury noticed the issue as well and corrected the problem in 2016.

## **OBTAINING A SECOND SIGNATURE ON CHECKS**

Checks issued by the City are first signed by the Controller and are then forwarded to the Treasurer for a second signature. During our testing of cash disbursements, we noted that three of the 25 checks selected for testing did not contain the Treasurer's signature. We recommend that the City follow its policy to ensure that all checks contain two signatures prior to being released to the payee.

**Management's Response:** The City concurs with the recommendation. All checks issued by Finance and signed by the Controller are verified with the reports provided by Finance and signed by the Treasurer. All these checks are registered by number and signed by an electronic signer, which has finally been replaced by an updated version of the same machine due to new check formatting and corresponding budget issues.

All checks received in Treasury are confirmed with reports received from Finance, the check numbers recorded, with the corresponding machine meter readings recorded as well. However, it is possible that due to the fact that this machine has not been working properly for a few years, some checks could have missed the signature. Finance also will be doubling checking signatures on all received checks from Treasury before vendor mailing occurs.

## **ADDRESSING FINDINGS AND RECOMMENDATIONS AS IDENTIFIED IN THE COMPLIANCE AUDIT REPORTS ISSUED BY THE AUDITOR GENERAL**

The Auditor General's Office issues Compliance Audit Reports for the City's three pension plans. The latest Compliance Audit Reports were issued for the period January 1, 2012 through December 31, 2014. As these reports were not issued until January 2016, all three plans received a finding for not depositing the 2015 state aid allocation into the pension plans within 30 days of receipt, as required by Act 205. We recommend that management review the findings and recommendations in the Compliance Audit Reports and ensure compliance.

**Management's Response:** The City concurs with the recommendation. Due to the lack of an approved fiscal year 2015-2016 state budget, the City had not received its \$5 million annual allocation for Fire and Police Protection services - as specified in the Harrisburg Strong Plan currently on file with the Commonwealth Court of Pennsylvania - by the time the required pension deposit was required under Act 205. The City received the consent of its Act 47 coordinator to withhold said payments to the plans, in order to protect scarce cash resources and allow critical public safety services to proceed uninterrupted so as not to damage the health, safety, and welfare of the citizens of Harrisburg, Pennsylvania. Pension state aid was deposited into the appropriate pension plans at year end 2015.

## **ESTABLISHING REVIEW PROCEDURES FOR SANITATION AND DISPOSAL BILLINGS AND CUSTOMER ACCOUNT ADJUSTMENTS**

During the year ended December 31, 2015, the City hired a Sanitation Billing and Enforcement Coordinator (Coordinator) to manage the billing functions for Sanitation and Disposal. Also during the year ended December 31, 2015, the City purchased new trash and recycling containers and distributed those containers to residential and commercial customers. Billings were changed to a per container basis and will vary based on the frequency of trash pick-up. The Coordinator is responsible for creating new customer accounts, maintaining documentation of the number of containers issued to each customer, updating customer accounts for any changes to the number of containers or the frequency of pick-up, and



reviewing the monthly billings reports. Currently, there are no procedures in place for review of the tasks performed by the Coordinator. In addition, there are no procedures in place for follow-up on delinquent accounts. We recommend that the procedures be implemented for review of the tasks performed by the Coordinator and that procedures be implemented to follow up on delinquent accounts.

**Management's Response:** The City concurs and is currently developing the recommended procedures.

## **RECONCILING THE HEALTH CARE BENEFITS ACCOUNT**

The City pays health care costs from the health care benefits account recorded on the General Fund. In addition, prescription rebates and Medicare Part D reimbursements are deposited into the health care benefits account. Monthly, the City allocates the health care costs to the various funds based on number of covered employees. However, the allocation does not take into consideration the prescription rebates or Medicare Part D reimbursements. As such, excess funds have been reimbursed to the health care benefits account. We recommend that the City revise the calculation for the allocation of the health care costs to include the prescription rebates and Medicare Part D reimbursements that are received each month. Further, we recommend that the City perform a reconciliation of the amounts reported in the health care benefits account and determine if any amounts are due back to the other funds.

## **GASB STATEMENT NO. 72, "FAIR VALUE MEASUREMENT AND APPLICATION"**

This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

To determine a fair value measurement, a government should consider the unit of account of the asset or liability. The unit of account refers to the level at which an asset or a liability is aggregated or disaggregated for measurement, recognition, or disclosure purposes as provided by the accounting standards. For example, the unit of account for investments held in a brokerage account is each individual security, whereas the unit of account for an investment in a mutual fund is each share in the mutual fund held by a government.

This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount. Valuation techniques should be applied consistently, though a change may be appropriate in certain circumstances. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical

assets or liabilities. Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management’s assumption of the default rate among underlying mortgages of a mortgage-backed security.

A fair value measurement takes into account the highest and best use for a nonfinancial asset. A fair value measurement of a liability assumes that the liability would be transferred to a market participant and not settled with the counterparty. In the absence of a quoted price for the transfer of an identical or similar liability and if another party holds an identical item as an asset, a government should be able to use the fair value of that asset to measure the fair value of the liability.

This Statement requires additional analysis of fair value if the volume or level of activity for an asset or liability has significantly decreased. It also requires identification of transactions that are not orderly. Quoted prices provided by third parties are permitted, as long as a government determines that those quoted prices are developed in accordance with the provisions of this Statement.

This Statement generally requires investments to be measured at fair value. An *investment* is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. Investments not measured at fair value continue to include, for example, money market investments, 2a7-like external investment pools, investments in life insurance contracts, common stock meeting the criteria for applying the equity method, unallocated insurance contracts, and synthetic guaranteed investment contracts. A government is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share (or its equivalent) of the investment.

This Statement requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. These assets were previously required to be measured at fair value.

This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent).

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged.

***GASB STATEMENT NO. 73, “ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS AND RELATED ASSETS THAT ARE NOT WITHIN THE SCOPE OF GASB STATEMENT 68, AND AMENDMENTS TO CERTAIN PROVISIONS OF GASB STATEMENTS 67 AND 68”***

The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, "*Financial Reporting for Pension Plans*," and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

This Statement also clarifies the application of certain provisions of Statements No. 67 and 68 with regard to the following issues:

- Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported
- Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions
- Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement No. 67 or for pensions that are within the scope of Statement No. 68 are effective for fiscal years beginning after June 15, 2015. Earlier application is encouraged.

#### ***GASB STATEMENT NO. 74, "FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS"***

The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces Statements No. 43, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*," as amended, and No. 57, "*OPEB Measurements by Agent Employers and*

*Agent Multiple-Employer Plans.*” It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, “*Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,*” as amended, Statement No. 43, and Statement No. 50, “*Pension Disclosures.*”

Statement No. 75, “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,*” establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

***GASB STATEMENT NO. 75, “ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS”***

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, “*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,*” as amended, and No. 57, “*OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,*” for OPEB. Statement No. 74, “*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,*” establishes new accounting and financial reporting requirements for OPEB plans. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to

project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity. In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

***GASB STATEMENT NO. 76, “THE HIERARCHY OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES FOR STATE AND LOCAL GOVERNMENTS”***

The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *“The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.”*

This Statement is effective for fiscal years beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

***GASB STATEMENT NO. 77, “TAX ABATEMENT DISCLOSURES”***

Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government’s current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government’s financial

resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time.

Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs. Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

- The names of the governments that entered into the agreements
- The specific taxes being abated
- The gross dollar amount of taxes abated during the period.

This Statement is effective for fiscal years beginning after December 15, 2015. Earlier application is encouraged.

***GASB STATEMENT NO. 78, "PENSIONS PROVIDED THROUGH CERTAIN MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLANS"***

The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *"Accounting and Financial Reporting for Pensions."* This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

**GASB STATEMENT NO. 79, “CERTAIN EXTERNAL INVESTMENT POOLS AND POOL PARTICIPANTS”**

This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, “*Accounting and Financial Reporting for Certain Investments and for External Investment Pools*,” as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool’s participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool’s participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those

provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

**GASB STATEMENT NO. 80, “BLENDNG REQUIREMENTS FOR CERTAIN COMPONENT UNITS – AN AMENDMENT OF GASB STATEMENT NO. 14”**

The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, “*The Financial Reporting Entity*,” as amended.

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, “*Determining Whether Certain Organizations Are Component Units*.”

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

**GASB STATEMENT NO. 81, “IRREVOCABLE SPLIT-INTEREST AGREEMENTS”**

The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged.

**GASB STATEMENT NO. 82, “PENSION ISSUES – AN AMENDMENT OF GASB STATEMENTS NO. 67, NO. 68, AND NO. 73”**

The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, “*Financial Reporting for Pension Plans*,” No. 68, “*Accounting and Financial*



*Reporting for Pensions,”* and No. 73, *“Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.”* Specifically, this Statement addresses issues regarding: (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Prior to the issuance of Statement No. 82, Statement Nos. 67 and 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement No. 82 amends Statement Nos. 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

Statement No. 82 clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement Nos. 67, 68, or 73 for the selection of assumptions used in determining the total pension liability and related measures.

Statement No. 82 clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement No. 67 and as employee contributions for purposes of Statement No. 68. It also requires that an employer’s expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

**Management’s Response:** The following pertains to the auditor’s comments on planning for the implementation of GASB Statement Nos. 72 through 82. The City concurs that planning is a crucial element of successful implementation of these GASB Statements and will review the specific requirements of these new standards and their potential impact on the City. The Bureau of Financial Management will continue to review and plan for these implementation requirements and monitor subsequent interpretations and guidance from the American Institute of Certified Public Accountants and Government Finance Officers Association.