

PFRSNJ Audit RFQ Responses

- Can you clarify which fiscal year-end is the first one under audit subject to this RFQ?

Based on Section I, Part A, page 2 of the RFQ:

“The financial audit for the year ended June 30, 2021, June 30, 2022, June 30, 2023, June 30, 2024, and June 30, 2025”

However, on Section I, Part C, page 3 of the RFQ; the tentative engagement letter execution timing is July 2020, the beginning of System FY 2021. Typically audit engagement letter execution occurs closer to the end of an entity’s fiscal year end.

The RFQ is starting in FY 2021. For Fiscal Year 2021, the contemplation is that our auditor is going to work with KPMG because many of the functions still overlap. We will not be producing our own CAFR for FY 2021. Our financial statements are going to be tied to the other systems form FY 2021. Starting in FY 2022, we will be completely independent, and will need to produce our own CAFR. Our first independent statement will be from July 1, 2021 through June 30, 2022

If this is not for FY 2020, will PFRSNJ be audited as a stand-alone entity for FY 2020 or continue to be part of the Division of Pension & Benefits of the State?

Because FY 2020 is nearing completion as of June 30, 2020, there is little work that is going to be completed in this year, and the PFRS system will be in conjunction with the other systems under the Audit of KPMG. However, starting for FY 2021, we will still continue to be linked, but will be taking on more functions for ourselves. We will likely produce our own audit report, for that year, but will be under the purview of the Division of Pensions and Benefits. The first completely independent Audit will be performed for FY 2020.

- Section I, Part A, page 2 of the RFQ states that the auditor expects to enter into a Master Services Agreement (“MSA”), is it possible at this time for you to provide a copy of the expected agreement you would anticipate the winning respondent firm to sign?

We will draft a contract. Because this is the first time that we are doing this, the contract is not yet drafted. So we do not have a draft to provide at this time.

- Based on the RFQ, Section II, Part A, page 4, it states that PRFS is a statewide agent multiple-employer public employee retirement system. However, in the Division of Pension & Benefits FY 19 CAFR, the PFRS is defined as a Cost-sharing multiple employer plan. Can you clarify the type of Plan PRFS is as it relates to the financial reporting requirements of GASB Statements No. 67 and 68? Is it an agent plan or cost-sharing plan as defined under those standards?

It is a cost-sharing multiple employer plan. The assets are pooled from all employers, and there is no individual lock box for each employer. Beneficiaries are paid out of the collective trust.

- At what period does the Board estimate that it will have staffing in place to take over full administrative operations and break away from the State Division of Pensions and Benefits and the Division of Investments?

In the case of the Division of Pensions and Benefits, it is likely to be at least a five year period, if not longer. The Board has the option to continue to contract with the Division of Pensions and Benefits to perform the administrative functions for the Board, such as paying individual checks to beneficiaries, and interacting between employers and employees.

Regarding the Division of Investments, this will be an even longer process. Currently the Board does not employ a Chief Investment Officer, nor has it implemented the investment regulatory guidelines that must be enacted before the Board can take legal title to its assets. Additionally, the CIO will need to develop and Investment Policy Statement before assets can be changed from the current asset allocation used by the Division of Investments. Finally, while Common Pension Fund D of the state is relatively liquid, and legal title will change relatively quickly, the Common Pension Fund E is largely illiquid, and the Board will have to wait for distribution events, and respond to capital calls from any alternative investment for a lengthy period of time, likely to exceed seven years.

- What is the current process for auditing census data for active plan members?

There is significant overlap in this area because of the Division of Pension and Benefits still performing many of the core functions for the Board of Trustees.

- a. Specifically, for the Police and Firemen's Plan, is the current auditor of the Division of Pension & Benefits performing visits to participating employers to test census information specifically for the Police and Fireman's Plan?

The Division's External Audit Unit performs the site visits at participating employers and KPMG, the Division's auditor relies on their work, which requires KPMG to reperform 20% of the site visits (under AICPA professional standards). KPMG did perform the site visits for the first two years (through 2015) before the State decided to take on the task. KPMG performs the testwork over the retired population as all that support is retained at the Division.

- b. If so, about how many visits are they performing annually?

When KPMG started the census data testing back in 2014, they utilized the AICPA whitepaper regarding how to select employers for testing. In short, it basically suggests that all of the local employers in PFRS be tested once every ten years and provides consideration for scoping out part of the population as being de minimis. There have been some ups and downs during the past 6 years of testing, but the External Audit Unit from the Division of Pensions and Benefits has been performing between 50-60 site visits a year to ensure by the 10th year, all employers have been reviewed at least once. The State is reviewed every year due to its size in proportion to the plan and the Division's External Audit selects various Divisions or colleges/universities to review each year.

- c. If not, how is the census data being audited?

See response above.

- For the investments measured at Net Asset Value (NAV) does the System obtain audited financial statements for all funds?

For those funds included in the financial statements of State of New Jersey Common Pension Fund E, the Division of Investment receives a copy of the audited financial statements for each alternative investment fund that is measured at NAV from the fund manager. The timing is dependent on each fund's year end and the completion of their respective audits. Most fund year ends are December 31.

- a. Generally, what is the timing of the receipt of those audits?

The timing is dependent on each fund's year end and the completion of their audit.

- b. For any funds not received before the books are closed, how does the System intend on estimating the fair value of those funds?

For the funds included in Common Pension Fund E, the Division of Investment requests estimated values as of June 30 from the fund managers.

- c. If a roll-forward approach (practical expedient) is used, how does the System estimate the second quarter (ending June 30, 20xx)?

Fund values are updated as updated monthly or quarterly statements are received from the fund managers. These values are recorded in the books and records on receipt date, not the "as of" date. Fund values are cash adjusted for contributions and distributions. At June 30, an estimated valuation is requested of the fund managers.

- d. Are the statements prepared under US GAAP?

The financial statements of Common Pension Funds D and E are prepared in accordance with US GAAP.

- e. If another method of accounting is used how does the System report those funds?

Not applicable

- What is the timing of the update procedures for the pension actuarial valuations? When is it expected to be ready for auditors to review?

We generally get the actuarial report in February or March of a given year. We just received the report ending July 1, 2019. We have this ready to present.

- Does the System intend to maintain the same actuary that was utilized for FY 19?

It may. The Board has authorized the procurement of an Actuary RFO, and will be submitted to the Board to go Public on June 8th. But we may also still continue to use Cheiron.

- Does the System obtain an actuarial audit? If so, when was the last one performed and when is the next one planned?

We do not have an actuarial audit per say. There is an experience study that is performed by the actuary every three years, which looks back at the assumptions of the actuary to see if they are consistent with the experience of the actuary's experience

over that period of time. Additionally, the Division of Pension and Benefit's Auditor looks at the actuary report, but there is no specific audit of the actuary report.

- When is the next experience study expected to be performed?

One was just completed, and accepted by the Board in February 2020. The next to be performed will be presented in February 2023.

- Were there any audit adjustments proposed by the previous auditor in FY 19, FY 18, and FY 17?

No to my knowledge, but we must consult with John Megariotis.

- There are a number of references in the RFP to CAFR. Please clarify if PFRS itself will be preparing a CAFR for submission to GFOA (i.e. including introductory, investment, and actuarial sections), or a set of financial statements and supplemental schedules similar to that of June 30, 2019 posted on the Treasury website.

The PFRS will be preparing its own CAFR statement, including introductory, investment and actuarial sections, which will then be presented to the Department of the Treasury. We plan on doing this in stages. FY 2020 is going to be completely combined with the other retirement systems. By FY 2021 we are going to start having independent financial reporting.

- On page 8, the RFP states, "The Board will have a separate external audit unit that audits, on a yearly basis, the census information of a representative group of local townships and municipalities and the State of New Jersey on a rotating basis." Will this group be independent and objective with respect to those charged with governance (i.e. is there an expectation that the financial statement audit firm would place some reliance on the work of this group)? If so, is an example audit plan or rotation schedule available at this time?

We don't have the resources to be able to do this ourselves right now, and would have to rely upon DPB. The Division currently reviews the data from various towns by doing sight checks at those locations. The independent auditor selects at random those sites it is going to review on its own.

- Are the common pension funds (i.e. D and E) in which PFRS invests expected to issue separate audited financial statements, similar to that of the Cash Management Fund?

For right now we are tied up to the structure of the Division of Investments, but eventually, the PFRS will take these assets into its own name, and will be expected to have their own audited financial statements. As noted in response to the first question, this is going to be a gradual process over time.

- Are any of the agency funds expected to be reported with the PFRS financial statements?

No PFRS will be issuing its own financial statements, to the extent that it can, starting with FY 2021.

- Please clarify the expectation of the deliverable for the 'CMF PFRSNJ Component' listed as item B on page 9 in section 3.1. Is this a separate audit report on financial statements over only a portion of the CMF funds attributed to the PFRS?

Yes, this contemplates that the CMF component held by the PFRS will have its own separate auditing report

- Please clarify the expected deadline for delivery of the GASB 68 audit reports listed as Item F page 9 in section 3.1? The RFP appears to indicate November 1st, but these have historically been in April/May of each year.

Need to Check when these reports are typically created, and issued to the Board, in the case of other systems. Please let me get back to you on this question.

Our goal is November 1 but there have been delays in the last couple years that have pushed the issuance back until April-May.

- Please describe any expected change in work location as indicated in section 3.7 on page 12, in light of COVID-19. Are there technologies (secure portals, etc.) that could be used if remote working conditions are required?

This is what we are currently building out. There needs to be access to the main frames to be able to get access to the Division of Pensions and Benefits and the Division of Investments. There will be collaboration with the Division of Pensions and Benefits and the Division of Investments.