



## Message from the Auditor General

In response to recent inquiries received from participating employers of the Florida Retirement System (FRS) and their auditors, the Office of the Auditor General provides the following information in relation to its Independent Auditor's Report dated December 15, 2016.

- Although the FRS actuary's (Milliman's) report indicated that the prescribed investment return assumption of 7.6% conflicted with the actuary's professional judgment as to what would constitute a reasonable assumption, Milliman's report also stated on page 5 that the assumptions and methods used in performing the GASB calculations meet the parameters set by GASB 67. Therefore, there was no evidence of a departure from GASB 67 for the calculation of the FRS liabilities.
- In considering the impact of the disclosure on our audit conclusions, we also noted that Milliman, in its Certification, indicated that, "while the valuation is based on an array of individually reasonable assumptions, other assumption sets may also be reasonable and valuation results based on those assumptions would be different. **No one set of assumptions is uniquely correct.**" [Emphasis Added]
- To assist with our audit of the FRS, we engaged an independent consulting actuary, Gabriel, Roeder, Smith & Company (GRS). GRS stated in their report to us that the actuarial assumptions and methods used by Milliman were generally appropriate to develop actuarial values of the FRS for purposes of complying with GASB 67. The GRS report also noted that GRS believed that Milliman appropriately calculated liabilities for GASB 67 purposes.
- In addition, GRS indicated that a nominal return of 7.5% may be considered reasonable. According to GRS, the 7.5% return was based on a building block methodology that considered a slightly different inflation assumption.
- Thirdly, GRS stated in their report that the information regarding the setting of the long term return on assets assumption did not address how historical plan performance was taken into account when Milliman determined whether the long term investment return assumption was reasonable. According to the State

Board of Administration who manages the FRS investments, the FRS historical investment returns were very similar to, or even exceeded, the 7.6% assumption. For example, the FRS 20-year investment return was 7.3%, its 25-year return was 8.4%, and its 30-year return was 8.4%. Also, the FRS 5-year return available at the time Milliman's determination was made was 11%.

- Although the FRS assumed investment rate of return was higher in the previous (2014-15) fiscal year, Milliman did not make a similar statement that year regarding the reasonableness of the rate and also did not provide an explanation as to what event (or events) occurred in the 12-month period to make the lower 7.6% assumption for the 2015-16 fiscal year not reasonable.

Accordingly, given the information in the reports available from the two actuaries, past returns, information from the subject matter experts who develop the assumptions (including the Department of Management Services), and the indication from GRS that a 7.5% assumption may be considered reasonable – there was sufficient, appropriate evidence to indicate to us, as the FRS auditors, that the financial statements presented fairly, in all material respects, the FRS liabilities.

As a result of our consideration of the audit evidence, and in light of the fact that there was no evidence of material misstatement, we issued an unmodified opinion on the financial statements. However, to inform users, including management, that future rates may require adjustment, we followed Milliman's lead and mirrored the actuary's statement regarding the investment return assumption in an emphasis of matter paragraph in our report.

AU-C 706.06 states that an emphasis of matter paragraph may be used if the auditor considers it necessary to draw attention to a matter appropriately presented or disclosed in the financial statements. Also, AU-C 706.06 clearly indicates that an emphasis of matter is not appropriate if the auditor has obtained sufficient appropriate audit evidence that the matter is materially misstated in the financial statements. The statement from Milliman regarding the investment return assumption was properly disclosed in the notes to the financial statements.

In summary, the sufficient appropriate evidence we obtained during our audit indicated that there was not a material misstatement related to the investment return assumption or the calculated liabilities under GASB 67. Accordingly, the emphasis of matter in our Independent Auditor's Report clearly states that our opinion was not modified with respect to this matter.

With respect to the GRS report obtained by the Auditor General as part of our audit - This report is considered an Auditor General working paper and thus, is not a public record pursuant to Florida Statutes.

If you have questions please contact [Kathryn Walker](#)



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