



Board of Retirement Regular Meeting

Sacramento County Employees' Retirement System

Agenda Item 11

MEETING DATE: December 20, 2017

SUBJECT: Annual Audit

SUBMITTED FOR: Consent Deliberation and Action Receive and File

RECOMMENDATION

Staff recommends that the Board receive and file the reports prepared by SCERS' independent auditor, Brown Armstrong Accountancy Corporation (Brown Armstrong).

PURPOSE

SCERS engaged Brown Armstrong to conduct an independent audit of its financial statements as of June 30, 2017 and 2016 and for the fiscal years then ended. Brown Armstrong has completed its audit and will report the results to the Retirement Board.

DISCUSSION

Andy Paulden, Partner, and Ashley Casey, Audit Manager, of Brown Armstrong will present the June 30, 2017 audit results. This presentation will include the purpose of the audit, the audit process, an overview of the significant areas upon which the audit focused and the scope of work. Brown Armstrong will also provide the Board with four reports, including the Independent Auditor's Report, which will be utilized in the SCERS financial statements.

The Independent Auditor's Report provides an unmodified (or "clean") opinion of SCERS' financial statements. Brown Armstrong will also provide their Report to the Board of Retirement, which includes the following three reports: 1.) Required Communication to the Members of the Board of Retirement in Accordance with Professional Standards (SAS 114); 2.) Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards*; and 3.) Agreed Upon Conditions Report Designed to Increase Efficiency, Internal Controls, and/or Financial Reporting (Management Letter). The Management Letter includes two comments that Brown Armstrong considers to be areas for improvement. Management agrees with Brown Armstrong's recommendations and will implement changes to address the concerns. SCERS' management's responses are included in the Management Letter.

BACKGROUND

SCERS has had an independent audit by an external CPA firm since the year 2000. Although SCERS conducted three separate requests for proposals over the years, the same CPA firm had served as SCERS' independent auditor from 2000 until 2016. In early 2017, a Request for Proposals was initiated, and Brown Armstrong was selected to be SCERS' independent auditor for a new three-year contract. It was believed that a fresh look at SCERS' accounting, financial reporting, and operations would be beneficial. We believe that Brown Armstrong has admirably achieved this goal.

ATTACHMENTS

Brown Armstrong's Presentation:

- Agenda
- Independent Auditor's Report
- Required Communication in Accordance with Professional Standards (SAS 114)
- Report on Internal Control, Compliance and Other Matters
- Agreed Upon Conditions Report (Management Letter)

Prepared by:

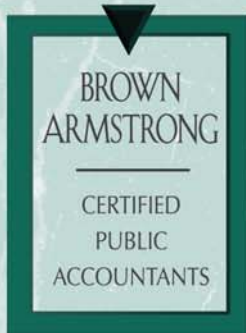
Reviewed by:

/S/

/S/

Kathryn T. Regalia
Chief Operations Officer

Annette St. Urbain
Assistant Retirement Administrator
and former Interim CEO



BROWN ARMSTRONG

Certified Public Accountants

Sacramento County Employees' Retirement System
Board of Retirement presentation
of the June 30, 2017 audit results
By: Andrew J. Paulden, CPA, and Ashley Casey, CPA
Brown Armstrong Accountancy Corporation
December 20, 2017

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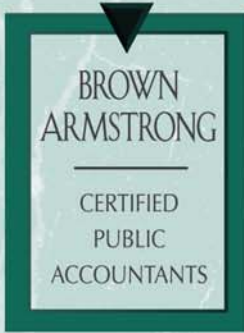
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1. Purpose of the Audit
2. The Audit Process
 - a. Timeline coordination with SCERS staff
 - b. Understanding and evaluation of SCERS internal controls through inquiry and observation
 - c. Confirmations with independent third parties
 - d. Interim testing
 - e. Final fieldwork testing
 - f. Report presentation
3. Significant Audit Areas/Scope of Audit Work
 - a. Risk based approach
 - b. Investments and related earnings
 - c. Participant data and actuarial information
 - d. Employee and employer contributions
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 - f. GASB Statement No. 67
4. Audit Reports
 - a. CAFR
 - i. Independent Auditor's Report (opinion) on Financial Statements – unmodified (“clean”) opinion
 - b. Report to the Board of Retirement
 - i. Required Communication to the Members of the Board of Retirement in Accordance with Professional Standards (SAS 114)
 - ii. 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*
 - iii. Agreed Upon Conditions Report Designed to Increase Efficiency, Internal Controls, and/or Financial Reporting (Management Letter)
5. Questions and/or Comments?



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Retirement of the
Sacramento County Employees' Retirement System
Sacramento, California

Report on the Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position of the Sacramento County Employees' Retirement System (SCERS) as of June 30, 2017, the related Statement of Changes in Fiduciary Net Position for the fiscal year then ended, and the related notes to the financial statements, which collectively comprise SCERS' basic financial statements as listed in the table of contents. The financial statements of SCERS as of and for the fiscal year ended June 30, 2016, were audited by other auditors, whose report dated December 2, 2016, expressed an unmodified opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to SCERS' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SCERS' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of SCERS as of June 30, 2017, and the changes in fiduciary net position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SCERS' basic financial statements. The other supplemental information and the introductory, investment, actuarial, and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Additional Information

The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2017, on our consideration of SCERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SCERS' internal control over financial reporting and compliance.

Report on Summarized Comparative Information

The financial statements of SCERS as of June 30, 2016, were audited by other auditors. Those auditors expressed an unmodified opinion on those audited financial statements in their report dated December 2, 2016. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2016, is consistent in all material respects with the audited financial statements from which it has been derived.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 7, 2017

**SACRAMENTO COUNTY EMPLOYEES'
RETIREMENT SYSTEM**

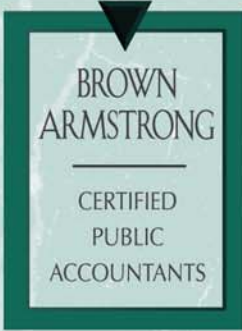
REPORT TO THE BOARD OF RETIREMENT

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

**SACRAMENTO COUNTY EMPLOYEES'
RETIREMENT SYSTEM**

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BROWN ARMSTRONG

Certified Public Accountants

REQUIRED COMMUNICATION TO THE MEMBERS OF THE BOARD OF RETIREMENT IN ACCORDANCE WITH PROFESSIONAL STANDARDS (SAS 114)

To the Board of Retirement of the
Sacramento County Employees' Retirement System
Sacramento, California

We have audited the financial statements of the Sacramento County Employees' Retirement System (SCERS) as of and for the fiscal year ended June 30, 2017, and have issued our report dated December 7, 2017. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 5, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by SCERS are described in Note 2, Summary of Significant Accounting Policies, to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2017. We noted no transactions entered into by SCERS during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting SCERS' financial statements were:

- Management's estimate of the fair value of investments, which was derived by various methods as detailed in the notes to the financial statements. We evaluated the key factors and assumptions used to develop the estimate of the fair value of investments in determining that it is reasonable in relation to the financial statements taken as a whole.
- The contribution amounts and net pension liability, which are based on the actuarially-presumed interest rate and assumptions. We evaluated the key factors and assumptions used to develop estimates of the contribution amounts and net pension liability in determining that they are reasonable in relation to the financial statements taken as a whole.

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Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosures for cash and investments in Notes 2 and 3 to the financial statements, Summary of Significant Accounting Policies and Plan Asset Matters and Cash and Investments, respectively, were derived from SCERS' investment policy. Management's estimate of the fair value of investments was derived by various methods as detailed in the notes.
- Additionally, the disclosures related to net pension liability and actuarial methods and assumptions in Note 4, Pension Liability and Significant Assumptions, were derived from actuarial valuations, which involved estimates of the value of reported amounts and probabilities about the occurrence of future events far into the future.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We did not identify any misstatements as a result of our audit procedures.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 7, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to SCERS' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as SCERS' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis, Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Employer Contributions, Schedule of Annual Money-Weighted Rate of Return, and Notes to the Required Supplementary Information, which are Required Supplementary Information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedule of Administrative Expenses, Schedule of Investment Management Fees and Expenses, Schedule of Payments to Consultants, and Statements of Changes in Assets and Liabilities – Agency Fund, which accompany the financial statements but are not RSI. With respect to this other supplemental information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other supplemental information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory, investment, actuarial, and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

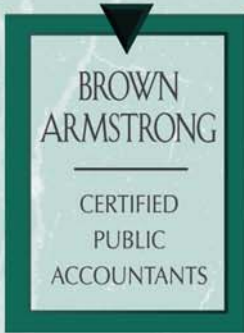
Restricted on Use

This information is intended solely for the use of the Board of Retirement and management of SCERS and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
December 7, 2017



BROWN ARMSTRONG

Certified Public Accountants

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

To the Board of Retirement of the
Sacramento County Employees' Retirement System
Sacramento, California

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We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Sacramento County Employees' Retirement System (SCERS) as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise SCERS' basic financial statements, and have issued our report thereon dated December 7, 2017

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SCERS' internal control over financial reporting (internal control) to determine the 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 SCERS' internal control. Accordingly, we do not express an opinion on the effectiveness of SCERS' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of SCERS' financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SCERS' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

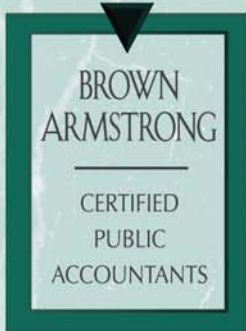
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SCERS' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SCERS' internal control and compliance. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
December 7, 2017



BROWN ARMSTRONG

Certified Public Accountants

AGREED UPON CONDITIONS REPORT DESIGNED TO INCREASE EFFICIENCY, INTERNAL CONTROLS, AND/OR FINANCIAL REPORTING (MANAGEMENT LETTER)

To the Board of Retirement of the
Sacramento County Employees' Retirement System
Sacramento, California

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We have audited the financial statements of the Sacramento County Employees' Retirement System (SCERS) as of and for the fiscal year ended June 30, 2017, and have issued our report dated December 7, 2017. In planning and performing our audit of the financial statements of SCERS, we considered its internal control structure over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SCERS' internal control. Accordingly, we do not express an opinion on the effectiveness of SCERS' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

During the audit we became aware of two matters that are opportunities for strengthening internal controls and operating efficiency. The recommendations that are listed in this report summarize the conditions and suggestions regarding the matters.

We will review the status of these matters during our next audit engagement. We have already discussed the matters and recommendations with various SCERS personnel, and 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 report is intended solely for the information and use of the Board of Retirement and management of SCERS and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
December 7, 2017

Current Year Agreed Upon Conditions and Recommendations

Agreed Upon Condition 1 – Terminated employees’ access not removed in a timely manner

During our examination of terminated employees’ access to key financial applications, we noted that user access to MBASE for one of nine individuals terminated during the audit period was not disabled or removed at the time of termination and, upon further examination, we noted that five additional user accounts for both SCERS and the Sacramento County Department of Technology (DTech) personnel who had retired or been terminated prior to the audit period were also active.

While MBASE is only accessible from within the County’s network, the active user accounts for terminated or retired individuals represent a security risk as they could be utilized by unauthorized personnel who have leveraged access to the County’s network to also access MBASE.

We examined the last logon date for each of the six accounts noting that the four of the six accounts were not used after the individual’s termination date. The remaining two accounts were accessed after the termination date; however, we noted that the usage was prior to the audit period.

Recommendation

It is recommended that SCERS amend its procedures to ensure that the SCERS Senior Information Technology Analyst (IT) is informed immediately when an employee is terminated or a termination date is set for service retirees. Prompt notification will aid in the timely removal of user access. If DTech is unable to provide timely notification to the SCERS Senior IT Analyst, it is recommended that a quarterly user account review for all DTech MBASE user accounts be performed.

Management Response

There is no capability within MBASE to deactivate a user account. An account is either active or it must be deleted. As a result, the practice has been to reset the account password after a user’s termination. The two accounts that were accessed after the termination date were accessed by SCERS IT staff to reset the password. SCERS has deleted the accounts for the two former SCERS employees and three DTech employees who still had active MBASE accounts.

SCERS agrees with the above recommendation and will ensure that notification and action regarding terminated or transferred employees with MBASE access occurs swiftly. SCERS will communicate regularly with DTech to ensure that only the appropriate active employees have access to MBASE. A quarterly review of all MBASE accounts will be performed.

Agreed Upon Condition 2 – An Information Security Policy related to the security and management of the MBASE application has not been documented

During our inquiries, we noted that SCERS utilizes the County’s *Information Technology Acceptable Use Policy* to communicate user security considerations; however, SCERS has not developed a MBASE-specific Information Security Policy to establish policies related to the security requirements and management of this financial application. Such policies would govern the requirements to be fulfilled and procedures to be utilized when granting, changing, and removing user accounts and permissions within MBASE, as well as document the security requirements related to the development and migration of changes to the MBASE production application. Failure to develop and maintain current, documented policies and procedures increases the risk that employees are either following obsolete procedures, performing tasks inconsistently, or are unaware of associated requirements, which may result in unauthorized or inaccurate processing of financial transactions.

During our examination of administrative access (access to administer security within the application) to MBASE, we noted that five SCERS individuals responsible for financial transactions have also been assigned administrator access to MBASE.

While financial reporting is not performed via MBASE, many financial transactions are based on data processed from this application. Administrative access allows the user to modify their own or other user account access permissions and perform or allow others to perform unauthorized activities. Per discussion with SCERS, we noted that the individuals require access permissions that only the Administrative function appears to provide. As a mitigating control, a monthly review by two separate individuals is performed to compare each manual entry into the financial application, COMPASS, to the MBASE supporting documentation.

Recommendation

It is recommended that SCERS formally document its IT-related policies and procedures, and once developed, review and update them on an annual basis at a minimum. The review process should include procedures for notifying all employees of updated policy documents and, where appropriate, seek acknowledgement of receipt of the updated policy from the employee. These policies should govern topics such as:

- *Required Authorizations*, such as which employees have the authority to make requests for new user accounts, or which employees have the authority to submit a change request for MBASE, or which employees can grant approval to implement a program change into the production application.
- *Administrative Access*, such as which employees are permitted to have administrative access; this should include consideration of segregation of duties.
- *Timing and Scheduling*, such as the timeframe in which Human Resources/supervisory staff must notify appropriate IT staff of a terminated employee.
- *User Acceptance Testing*, requirements for testing program changes to MBASE prior to approving implementation into the production environment. This should include minimum documentation requirements retained to provide evidence that appropriate testing was performed.

Additionally, it is recommended that SCERS and DTech examine the administrative access permissions settings to determine if the security administration access permissions can be segregated from other application functionality. If security administration access functions can be segregated, we recommend restricting the security administration functions to individuals who are not responsible for financial transaction processing. If SCERS is unable to further segregate these duties, it is recommended that a monitoring control be implemented within the MBASE application whereby all access permissions changes during the review period are automatically reported by the MBASE application. This report should be reviewed by a member of management without administrative access permissions to change user access permissions in order to confirm that all changes were properly approved.

Management Response

SCERS recognizes that the MBASE application lacks many desirable security and application administration features. This is a primary consideration driving our IT Modernization program which will replace MBASE and related applications with a new system having a strong, technically advanced security and controls architecture.

SCERS agrees with the above recommendations including the development of written MBASE policies and procedures. The development of the policies and procedures will be incorporated into SCERS' ongoing initiatives addressing many enhancements to our policy management and risk management capabilities.

Status of Prior Year Agreed Upon Conditions and Recommendations

None in prior year.