



# Audit Committee

## Sacramento County Employees' Retirement System

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### Agenda Item 3

**MEETING DATE:** September 15, 2020

**SUBJECT:** Planning Required Communications

**SUBMITTED FOR:**  Consent  Deliberation and Action  Receive and File

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### RECOMMENDATION

Staff recommends the Audit Committee receive and file the planning required communications related to SCERS' annual independent financial statement audit as of and for the fiscal year ended June 30, 2020.

### PURPOSE

This item supports the Strategic Management Plan by providing transparent communication to stakeholders regarding roles and responsibilities.

### DISCUSSION

Andy Paulden, Partner, and Ashley Casey, Partner, of Brown Armstrong will present the June 30, 2020 planning required communications. The presentation will include the audit objectives, areas of focus, strategy and timeline, reports to be issued, and future accounting pronouncements.

### ATTACHMENT

- SCERS Proposed Audit Plan June 30, 2020

Prepared by:

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Debbie Chan  
Senior Accounting Manager

Reviewed by:

/S/

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Eric Stern  
Chief Executive Officer



# Sacramento County Employees' Retirement System

## Scope of Services Presentation – Proposed Audit Plan to the Audit Committee for the Fiscal Year Ended June 30, 2020

**Brown Armstrong**

**Accountancy Corporation**

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**BROWN ARMSTRONG**  
Certified Public Accountants

September 15, 2020

The Audit Committee  
Sacramento County Employees' Retirement System  
980 9<sup>th</sup> Street, Suite 1900, Sacramento, CA 95814

We are pleased to have the opportunity to present to you our plan for the audit of Sacramento County Employees' Retirement System (SCERS) for the fiscal year ended June 30, 2020.

This presentation has been prepared to discuss the scope of the audit of SCERS and gives the Audit Committee the opportunity to review, discuss, and comment on our plan. Some modifications of the scope of our plan may be required as we execute our audit. We will advise the Audit Committee of any significant changes.

We look forward to presenting this information, addressing your questions, and discussing any other matters of interest to the management of SCERS and the Audit Committee.

Sincerely,

Andrew J. Paulden, Audit Partner  
Ashley L. Casey, Audit Partner  
Brown Armstrong Accountancy Corporation

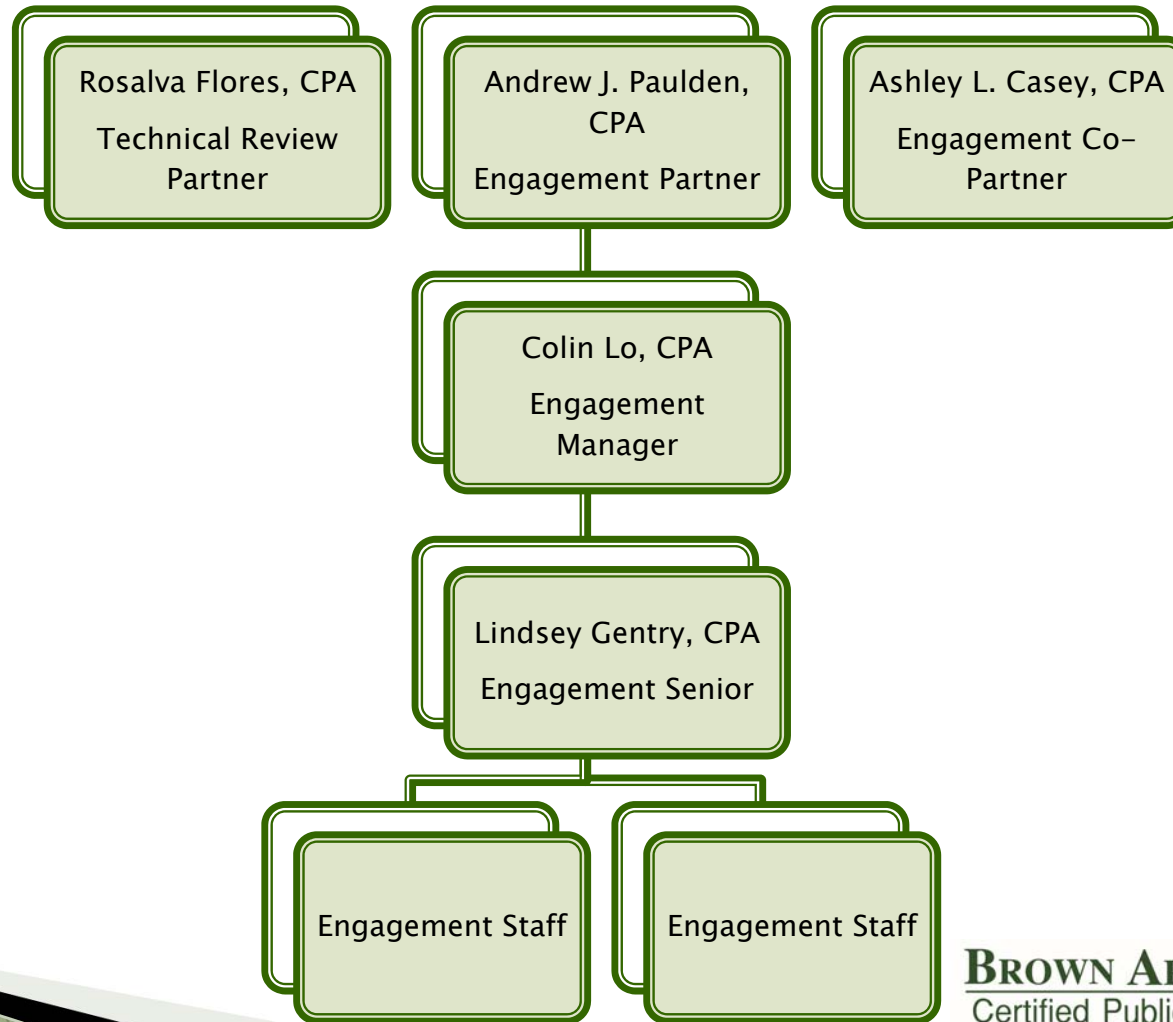


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# The Engagement Team



# Our Audit Objectives

As the auditors for SCERS, we are responsible for reporting on the financial statements of SCERS for the fiscal year ended June 30, 2020. Our engagement is focused on delivering our services at three levels.

For the public and SCERS	Independent opinions and reports that provide assurance on the financial information released by SCERS.
For the Audit Committee/Board of Retirement	Assistance in discharging their fiduciary responsibilities.
For management	Observations and advice on financial reporting, accounting, and internal control issues from our professionals.

Our primary objective is the expression of an opinion on SCERS' financial statements and internal control over financial reporting 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, which includes:

- Obtaining reasonable assurance as to whether the financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and are free of material misstatements, whether caused by error or fraud; and
- Obtaining reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

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# Audit Areas of Focus

Significant Risk Areas	Brown Armstrong's Response
Revenue recognition	<ul style="list-style-type: none"><li>• Test of controls will be performed over contribution amounts as part of participant data</li><li>• Confirmations from third parties</li><li>• Other substantive analytics will also be performed</li></ul>
Management override of controls	<ul style="list-style-type: none"><li>• An understanding of controls over journal entries will be obtained and a sample of individual journal entries will be tested</li><li>• Inquiries will be performed with individual(s) involved in the financial reporting process, and ensure no inappropriate or unusual activity relating to journal entry processing</li><li>• Perform walkthroughs of significant audit areas to review adequate segregation of duties</li></ul>

# Audit Areas of Focus (continued)

Significant Audit Areas	Brown Armstrong's Response
Investments and related earnings	<ul style="list-style-type: none"> <li>• Walkthrough of controls performed</li> <li>• High level analytics to be performed on investment income</li> <li>• Confirmation with custodian, investment managers, and consultants</li> <li>• Review of GASB Statement No. 72 valuation inputs and testing of Level determinations</li> <li>• Obtain audited financial statements and SOC reports</li> </ul>
Participant data and actuary	<ul style="list-style-type: none"> <li>• Walkthrough and test of controls</li> <li>• Test participant data, including active and terminated members, and employer payroll                             <ul style="list-style-type: none"> <li>• Confirm information with actuary</li> </ul> </li> <li>• GASB Statement No. 67                             <ul style="list-style-type: none"> <li>• Money-weighted return</li> <li>• Required Supplementary Information (RSI)</li> </ul> </li> </ul>
Employer and employee contributions	<ul style="list-style-type: none"> <li>• Walkthrough and test of controls</li> <li>• Confirm with significant employers</li> <li>• High level analytics</li> </ul>
Benefit payments	<ul style="list-style-type: none"> <li>• Walkthrough and test of controls</li> <li>• Test benefit payments</li> <li>• High level analytics</li> </ul>



# Audit Strategy and Timeline

Phase I	Phase II	Phase III	Phase IV
May - July	August	September - October	October - November
Planning	Interim Field Work	Final Field Work	Completion
Familiarize ourselves with operating environment	Assess internal control environment and identify strengths and weaknesses	Reevaluate the progress of the audit and make any changes on audit approach and procedures, if necessary	Perform completion procedures, including manager, partner, and technical reviews
Perform risk assessment procedures	Perform SAS 99 (fraud evaluation) procedures	Plan and perform substantive audit procedures substantiating all amounts and disclosures in the financial statements	Obtain GASB Statement No. 67 valuation performing completion procedures
Determine planning materiality	Perform walkthroughs of significant audit areas	Conduct final analytical review	Perform review of CAFR and related disclosure checklists
Perform preliminary analytical review	Evaluate design and implementation of selected controls	Consider audit evidence sufficiency	Obtain legal confirmations
Develop the audit plan	Test controls over financial reporting and participant data	Conclude on critical accounting matters	Draft reports to be issued
Identify significant audit areas and confirmation procedures	Understand accounting and reporting activities	Test valuations of fair value investments	Draft and obtain signed management representation letter
Determine nature and extent of audit procedures	Conduct exit conference with management to discuss preliminary results based on the test of controls performed	Continually educate staff about upcoming GASB standards/audit regulations that will need to be implemented	Issue auditor's reports and management letter
	Audit Committee meeting; Presentation of Scope of Services	Conduct Exit Conference with management, including a discussion of proposed audit adjustments, internal control and compliance findings, and management letter	Audit Committee meeting; Presentation of Audit and Compliance Reports

# Proposed Changes in Audit Plan from Prior Year

- ▶ Performing the audit remotely utilizing zoom for in person meetings and Kiteworks for sharing files
- ▶ Confirmation and review of Investment Third Party Service provider - Colmore
- ▶ Selected retirees from the Sacramento County Law Enforcement Managers Association (LEMA) as part of our sample as a result of early retirement incentive program
- ▶ Investment Manager Fee Testing

# Reports Expected to be Issued

			
Generally Accepted Auditing Standards			
Independent Auditor's Report (Opinion) on Financial Statements	Required Communication to the Board of Retirement and Audit Committee in Accordance with Professional Standards (SAS 114)	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> (Yellow Book Report)	Report on Agreed Upon Conditions Designed to Increase Efficiency, Internal Controls, and/or Financial Reporting (Management Letter)

# Future Accounting Pronouncements for the next two years

Standard	Title	Effective Date	Year End Effective Date	Effect on SCERS?
GASB Statement No. 95	<i>Postponement on the Effective Dates of Certain Authoritative Guidance</i>	Immediately	July 1, 2019 – June 30, 2020	Delays implementation of GASB Statements 84, 89-93 and related implementation guides by 1 year and GASB 87 and related implementation guide by 18 months.
GASB Statement No. 84	<i>Fiduciary Activities</i>	Fiscal years beginning after December 15, 2019	July 1, 2020 – June 30, 2021	This statement does apply to SCERS as there are agency activities which will now be reported as a custodian fund..
GASB Statement No. 87	<i>Leases</i>	Fiscal years beginning after June 15, 2021	July 1, 2021 – June, 30, 2022	Requires the recognition of certain assets and liabilities for leases that were previously classified as operating leases and recognized as inflows or outflows of resources based on the payment provisions of the contract. SCERS' potential impact upon implementation has not been determined.
GASB Statement No. 89	<i>Accounting for Interest Cost Incurred Before the End of a Construction Period</i>	Fiscal years beginning after December 15, 2020	July 1, 2021 – June, 30, 2022	This statement does not apply as SCERS does not account for or report construction.
GASB Statement No. 90	<i>Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61</i>	Fiscal years beginning after December 15, 2019	July 1, 2020 – June 30, 2021	This statement does not apply as SCERS does not have component units.

# Questions?

We are looking forward to working closely with you and the management team during the June 30, 2020 audit.  
Thank you!



Andrew J. Paulden, CPA



Ashley L. Casey, CPA