

**SAN BERNARDINO COUNTY EMPLOYEES'  
RETIREMENT ASSOCIATION  
REPORT TO THE BOARD OF RETIREMENT  
FOR THE YEAR ENDED JUNE 30, 2021**

# Exhibit B: Page 2

## SAN BERNARDINO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### TABLE OF CONTENTS

|   | <u>Page</u> |
|---|-------------|
| I. Required Communication to the Board of Retirement<br>in Accordance with Professional Standards .....   | 1           |
| II. Independent Auditor's Report on Internal Control Over Financial Reporting and on<br>Compliance and Other Matters Based on an Audit of Financial Statements<br>Performed in Accordance with <i>Government Auditing Standards</i> ..... | 4           |
| III. Agreed Upon Conditions Report Designed to Increase Efficiency, Internal<br>Controls, and/or Financial Reporting (Management Letter) .....  | 6           |



**REQUIRED COMMUNICATION TO THE BOARD OF RETIREMENT  
IN ACCORDANCE WITH PROFESSIONAL STANDARDS**

Board of Retirement  
San Bernardino County Employees' Retirement Association  
San Bernardino, California

We have audited the financial statements of San Bernardino County Employees' Retirement Association (SBCERA) as of and for the fiscal year ended June 30, 2021, and have issued our report thereon dated October 31, 2021. 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 May 18, 2021. 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 SBCERA are described in Note 2 to the financial statements. As noted, in Note 2 SBCERA adopted Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, during the fiscal year ended June 30, 2021. We noted no transactions entered into by SBCERA 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 the financial statements were:

Management's estimate of the fair value of investments is derived by various methods as detailed in Note 2. 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 the 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.

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 deposits and investments in Notes 2 and 7 to the financial statements, Summary of Significant Accounting Policies and Deposits and Investments, respectively, were derived from SBCERA's investment policy. Management's estimate of the fair value of investments was derived by various methods as detailed in the notes.

## Exhibit B: Page 4

Additionally, the disclosures related to the funding policies, net pension liability, and actuarial methods and assumptions in Note 2 Summary of Significant Accounting Policies, Note 5 Reserves of Plan Assets, Note 4 Pension Disclosures, were derived from the actuarial valuations, which involved estimates of the value of reported amounts and probabilities about the occurrence of 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 misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no such misstatements in the current fiscal year.

### *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 October 31, 2021.

### *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 SBCERA's 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 fiscal year prior to retention as SBCERA's 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*

With respect to the other supplementary information accompanying the financial statements, 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 supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We did not audit the management's discussion and analysis; required supplementary information; or introductory, investments, actuarial, or statistical sections.

\*\*\*\*\*

## Exhibit B: Page 5

This information is intended solely for the use of the Board of Retirement and management of San Bernardino County Employees' Retirement Association 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  
October 31, 2021

**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**

Board of Retirement  
San Bernardino County Employees' Retirement Association  
San Bernardino, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of San Bernardino County Employees' Retirement Association (SBCERA), as of and for the fiscal year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise SBCERA's basic financial statements, and have issued our report thereon dated October 31, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered SBCERA'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 our opinions on the effectiveness of SBCERA's internal control. Accordingly, we do not express an opinion on the effectiveness of SBCERA's 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. 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 over financial reporting 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 SBCERA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

## Exhibit B: Page 7

### 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 SBCERA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SBCERA's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
October 31, 2021

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

Board of Retirement  
San Bernardino County Employees' Retirement Association  
San Bernardino, California

We have audited the financial statements of the San Bernardino County Employees' Retirement Association (SBCERA) as of and for the fiscal year ended June 30, 2021, and have issued our report dated October 31, 2021. In planning and performing our audit of the financial statements of SBCERA, 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 SBCERA's internal control. Accordingly, we do not express an opinion on the effectiveness of SBCERA's 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. 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 and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. 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. We did not identify any deficiencies in internal control that we considered to be material weaknesses or significant deficiencies. However, significant deficiencies and material weaknesses may exist that have not been identified.

The results of our audit disclosed no recommendations for the current year, and we are providing the disposition of the prior year comments.

**Restriction on Use**

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

Bakersfield, California  
October 31, 2021

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

# Exhibit B: Page 9

## Current Year Agreed Upon Conditions and Recommendations

### Agreed Upon Condition-1 – Death Claim

#### Condition

During our testing of decedent participant data, we noted that for one out of the ten samples selected, the named beneficiary did not receive any additional follow up notices after the initial notice. The participant's condolence letter was sent out, and the workflow was moved to the "Remind-Waiting on Forms" step. Per discussion with SBCERA personnel, there is no automatic reminder generated after the participant is placed in this step. SBCERA personnel have to manually review the workflow to determine what death claims are pending documentation and follow up. As a result, the beneficiary has not received a follow up notice since 2020.

#### Recommendation

We recommend that SBCERA set up a list in a shared folder to track the individuals who are pending documentation and include the date of the last follow up. We further recommend SBCERA designate an employee to periodically review the list to ensure follow up notices are being sent out regularly.

#### Management Response

SBCERA recognizes that the process for Death Benefits needs to be improved. We engaged with Brown Armstrong Accountancy Corporation to help us identify those needs and are currently engaged with Linea Solutions to work on a solution. We will be improving the process, including incorporating solutions through our software provider, LRS. The exception noted above has been created because the intended party of the condolence letter has not replied to our request for information.

## Status of Prior Year Agreed Upon Conditions and Recommendations

### Agreed Upon Condition 1 – Lack of Approval for County Expenses

Per review of the County GL detail and discussion with Amy McInerney, CFO, we noted that multiple County expenses do not follow SBCERA's accounts payable policy and procedures. These expenses are paid without SBCERA's approval; this is because SBCERA has pooled funds on deposit with the County. The County takes the funds for services without notifying or obtaining approval from SBCERA. Some of the services are invoiced upon request, but many are not. For example, the County processes SBCERA's payroll and deducts from their account without any approval from SBCERA. Another example is mail services. There are no invoices available that can be verified. The department simply enters a journal entry in the County's accounting system and moves the funds out of SBCERA's account.

#### Recommendation

We recommend that SBCERA obtain invoices from the County and the invoices be approved by SBCERA before SBCERA initiates and makes the payment.

#### Management Response

SBCERA's goal is to withdraw all funds from the County treasury pool, which would prevent all unauthorized payments of County invoices. This cannot be accomplished until SBCERA begins processing its own payroll effective January 1, 2021. Once this is accomplished, there will be no more regular bills that the County will send to SBCERA. The County will begin paying SBCERA for retirement contributions directly into an account at a regular financial institution, held solely in the name of SBCERA. If there are any ancillary invoices, they will only be able to send an invoice to SBCERA to request payment, as there will no longer be any funds on deposit that belong to SBCERA but are controlled by the County.

### **Current Year Status**

Per discussion with management, this problem has been resolved during fiscal year 2021. The accounts that SBCERA held in the San Bernardino County Investment Pool (SBCIP) were closed, preventing all unauthorized access by County employees.

Further, SBCERA no longer contracts with the County for payroll services, fleet car, internet access, email, or other information technology (IT) infrastructure items. Therefore, there are only minimal amounts being paid to the County by SBCERA, and these expenses are now following the same accounts payable (AP) process as all other SBCERA payable items.