



San Bernardino County Employees' Retirement Association

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

Brown Armstrong Accountancy Corporation

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Exhibit A: Page 2

June 18, 2020

Audit Committee
San Bernardino County Employees' Retirement Association
348 W. Hospitality Lane

We are pleased to have the opportunity to present to you our plan for the audit of San Bernardino County Employees' Retirement Association (SBCERA) for the year ended June 30, 2020.

This presentation has been prepared to discuss the scope of the audit.

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

Sincerely,

Andy J. Paulden, CPA and Neeraj Datta, CPA, CGMA

Brown Armstrong Accountancy Corporation

Contents

	Page
➤ Summary	4
➤ Our Audit Objectives	5
➤ The Engagement Team	6
➤ 2020 Audit Timeline/Critical Dates List	7
➤ Audit Strategy	12
➤ Audit Areas of Focus	13
➤ Reports Expected to be Issued	16
➤ Implementation of New Accounting Pronouncements if Applicable to SBCERA for the June 30, 2020 Audit	17
➤ Future Accounting Pronouncements	18
➤ Questions	19

Summary

This document outlines our audit strategy and approach for the June 30, 2020 audit of SBCERA and gives the Audit Committee the opportunity to review, discuss, and comment on our plan.

This document provides:

- The engagement team and the proposed audit timeline.
- An overview of our audit strategy and focus areas.
- Plan for continuous, two-way communication and reporting to the Audit Committee and management.
- Management's responsibilities in relation to the audit.

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.

Our Audit Objectives

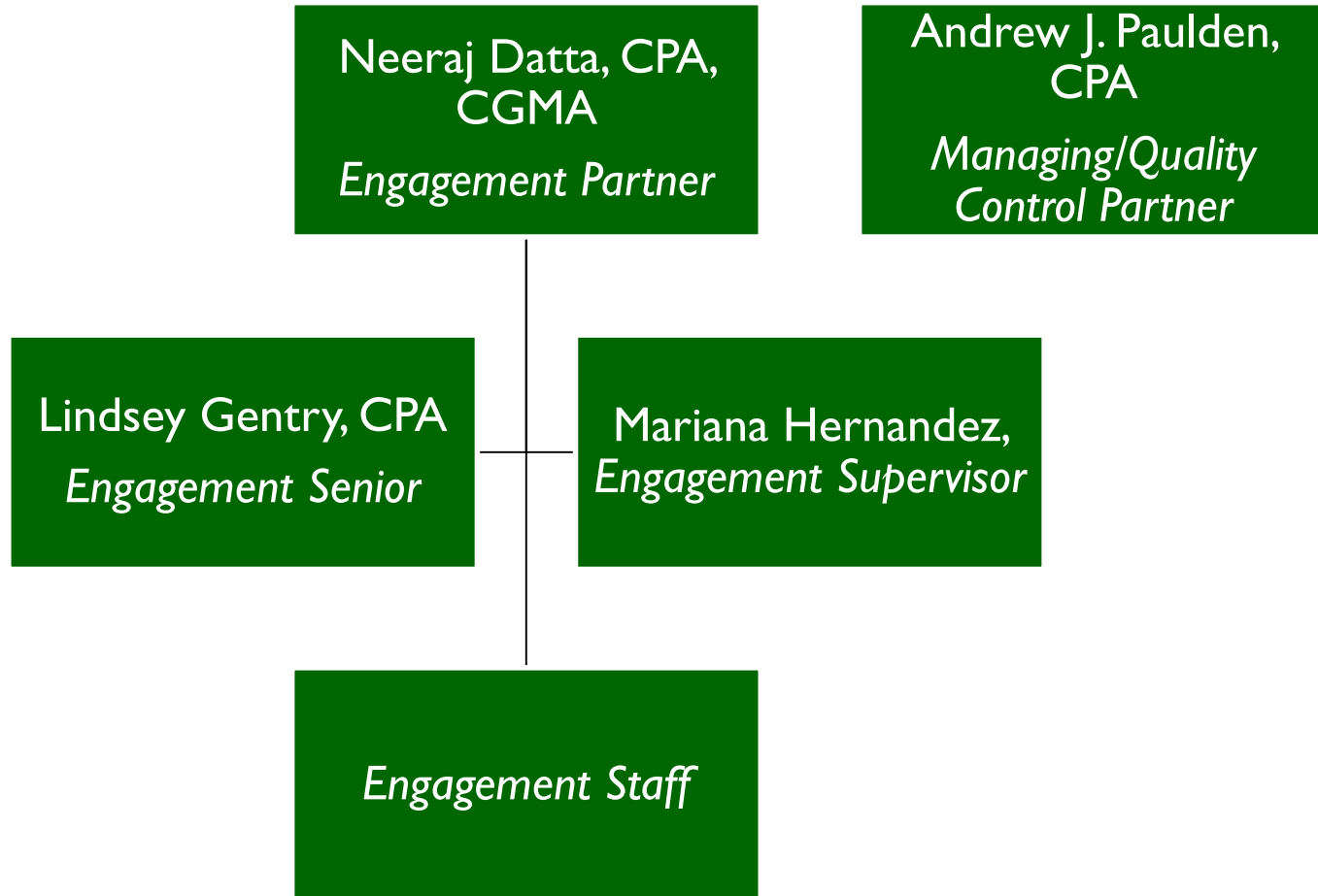
As the auditor for SBCERA, we are responsible for reporting on the financial statements of SBCERA for the fiscal year ended June 30, 2020. Our engagement is focused on delivering our services at three levels.

For the public and SBCERA	Independent opinions and reports that provide assurance on the financial information released by SBCERA.
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 SBCERA's financial statements and assessing 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.

The Engagement Team



2019 Audit Timeline/Critical Dates List

Item	Due Date	Status
PLANNING		
AUDITOR to provide SBCERA with Participant Population request and interim information request email	Wednesday, April 1, 2020	Completed
SBCERA to provide Active and Retired Populations to AUDITOR	Friday, April 10, 2020	Completed
AUDITOR to provide SBCERA with sample selection for participants confirmations with confirmations templates	Wednesday, April 15, 2020	Completed
SBCERA to provide Active and Retired Participant Confirmations to AUDITOR for mailing	Wednesday, April 22, 2020	Completed
AUDITOR to mail 1st request Active and Retired Participant Confirmations for SBCERA	Wednesday, April 22, 2020	Completed
SBCERA to provide Journal Entries and SAS 99 populations to AUDITOR for sample selection	Friday, May 1, 2020	Completed
AUDITOR to provide SBCERA with sample section of Journal Entries and SAS 99 test-work samples	Wednesday, May 6, 2020	Completed
AUDITOR to mail 2nd request Active and Retired Participant Confirmations for SBCERA	Wednesday, May 13, 2020	Completed
INTERIM FIELDWORK		
Beginning of interim audit fieldwork remotely, if possible	Monday, June 1, 2020	Complete
Entrance/status meeting between AUDITOR and SBCERA management	Wednesday, June 3, 2020	Complete

2019 Audit Timeline/Critical Dates List

(continued)

Item	Due Date	Status
INTERIM FIELDWORK PLANNING, continued		
AUDITOR to provide Custodian, Investment Managers, Legal, Contributions and all other remaining confirmations templates and final field-work information request list	Thursday, July 30, 2020	
SBCERA to provide Custodian, Investment Managers, Legal, Contributions and all other confirmations with email contacts updated in Confirmation Log to AUDITOR for emailing.	Thursday, August 13, 2020	
AUDITOR to email 1st request to SBCERA Custodian, Investment Managers, Actuary and all other confirmations	Friday, August 14, 2020	
SBCERA to provide June 30, 2020 Trial Balance in electronic format and Chart of Accounts provided to AUDITOR	Monday, September 7, 2020	
SBCERA to provide "Investment Manager to Custodian" reconciliation as of 6/30/20	Monday, September 14, 2020	
AUDITOR to email 2nd request to SBCERA Custodian, Investment Managers, Actuary and all other confirmations (except for Legal)	Friday, September 4, 2020	
SBCERA to provide "draft" statement of Statement of Net Position and Statement of Changes	Monday, September 14, 2020	
Items on Final Information Request Lists due from SBCERA to AUDITOR (refer to document for other due dates)	Monday, September 14, 2020	
SBCERA to provide AUDITOR with draft of CAFR (Financial Section Only- with FS notes, RSI, SI and MD&A)	Tuesday, September 29, 2020	
INTERIM FIELDWORK PLANNING, continued		

2019 Audit Timeline/Critical Dates List

(continued)

Item	Due Date	Status
Year-end Final Fieldwork		
Beginning of final audit fieldwork at SBCERA's office.	Monday, September 14, 2020	
Entrance meeting between AUDITOR and SBCERA management	Monday, September 14, 2020	
Expected completion date of fieldwork, and exit conference with SBCERA management	Friday, September 18, 2020	
AUDIT WRAP-UP AND FINAL REPORTS		
AUDITOR to provide SBCERA draft management representation letter	Monday, September 28, 2020	
SBCERA Legal confirm follow-up by AUDITOR	Tuesday, September 29, 2020	
AUDITOR to provide SBCERA management with the following reports in draft format: Independent Auditor's Report Internal Governance Committee Report (SAS 114 letter) Independent Auditor's Report on Compliance and Internal Controls	Friday, October 2, 2020	
SBCERA to provide AUDITOR responses to Management Letter/Agreed Upon Conditions Report	Tuesday, October 6, 2020	
SBCERA Legal confirms due	Thursday, October 8, 2020	

2019 Audit Timeline/Critical Dates List

(continued)

Item	Due Date	Status
AUDIT WRAP-UP AND FINAL REPORTS	Monday, September 16, 2019	
AUDITOR to complete SBCERA Partner/Concurring Partner Review/Compliance	Thursday, October 15, 2020	
AUDITOR to provide SBCERA with comments on draft FS, note disclosures, RSI, SI and MD&A	Thursday, October 15, 2020	
SBCERA to provide AUDITOR with a final corrected Financial Section-FS, notes disclosures, RSI, SI and MD&A	Tuesday, October 20, 2020	
AUDITOR to review corrected SBCERA CAFR ((Financial Section Only- with FS notes, RSI,SI and MD&A)) and finalize	Friday, October 30, 2020	
AUDITOR to provide SBCERA management with the following reports in final format format: Independent Auditor's Report Internal Governance Committee Report (SAS 114 letter) Independent Auditor's Report on Compliance and Internal Controls	Friday, October 30, 2020	
SBCERA to provide final, COMPLETE CAFR to AUDITOR	TBD	
AUDITOR presentation/delivery to Board of SBCERA	TBD	

2019 Audit Timeline/Critical Dates List

(continued)

Item	Due Date	Status
SBCERA to provide approval of all AUDITOR reports	Wednesday, October 30, 2019	
AUDITOR to provide SBCERA management with the following reports in final format: Independent Auditor's Report Letter to Management with Recommendations, if any Audit Committee Report (SAS 114 letter) Independent Auditor's Report on Compliance and Internal Controls	TBD	
AUDITOR to provide SBCERA with "packets" of the above reports for Board meeting	TBD	
AUDITOR presentation/delivery to SBCERA Internal Governance Committee	TBD	

Audit Strategy

Phase I	Phase II	Phase III	Phase IV
←	Audit Planning	→	
Planning	Interim Field Work	Final Field Work	Completion
Familiarize ourselves with operating environment	Assess internal control environment and identify strengths and weaknesses	Plan and perform substantive audit procedures substantiating all amounts and disclosures in the financial statements	Perform completion procedures, including manager, partner and technical review
Perform risk assessment procedures	Perform SAS 99 (fraud evaluation) procedures	Conduct final analytical review	Obtain GASB Statements No. 67 & 68 valuation performing completion procedures
Determine planning materiality	Perform walkthroughs of significant audit areas	Consider audit evidence sufficiency	Perform review of CAFR and related disclosure checklists
Perform preliminary analytical review	Evaluate design and implementation of selected controls	Conclude on critical accounting matters	Obtain legal confirmations
Develop the audit plan	Test controls over financial reporting and participant data	Test valuations of fair value investments	Draft reports to be issued
Identify significant audit areas and confirmation procedures	Understand accounting and reporting activities	Continually educate staff about upcoming GASB standards/audit regulations that will need to be implemented	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	Conduct Exit Conference with management, including a discussion of proposed audit adjustments, internal control and compliance findings, and management letter	Issue auditor's reports and management letter
Internal Governance Committee meeting; Presentation of Scope of Services and Engagement Letter	Reevaluate the progress of the audit and make any changes on audit approach and procedures, if necessary		Internal Governance Committee meeting; Presentation of Audit and Compliance Reports

Audit Areas of Focus

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

Audit Areas of Focus (continued)

Significant Audit Areas	Brown Armstrong's Response
Investments and related earnings	<ul style="list-style-type: none"> • Walkthrough of controls • High level analytics review of investment income • Confirmation with custodian, managers, and consultants • Review GASB Statement No. 72 valuation inputs and testing of level determinations • Obtain audited financial statements and SOC reports
Participant data and actuary	<ul style="list-style-type: none"> • Walkthrough and test of controls • Testing of participant data, including active and terminated members, and employer payroll <ul style="list-style-type: none"> • Confirmation with individual participants, actuary and employers • GASB Statement No. 67/68 <ul style="list-style-type: none"> • Money weighted return • Required Supplementary Information (RSI) and Other Information schedules
Employer and employee contributions	<ul style="list-style-type: none"> • Walkthrough and test of controls • Confirmed with employers • High level analytics
Benefit payments	<ul style="list-style-type: none"> • Walkthrough and test of controls • Testing of benefit payments • High level analytics

Reports Expected to be Issued

<div> <div>←</div> <div><i>Government Auditing Standards</i></div> <div>→</div> </div>			
Generally Accepted Auditing Standards			
Independent Auditor's Report (Opinion) on Financial Statements	Required Communication to the Board of Retirement in Accordance with Professional Standards (SAS 114)	Report on SBCERA'S Internal Control over Financial Reporting and on Compliance with Laws and Regulations	Report on Agreed Upon Conditions Designed to Increase Efficiency, Internal Controls, and/or Financial Reporting (Management Letter)

Implementation of New Accounting Pronouncements if Applicable to SBCERA for the June 30, 2020 Audit

Standard	Title	Effective Date	Year End Effective Date	Effect on StanCERA?
GASB Statement No. 84	<i>Fiduciary Activities</i>	Fiscal years beginning after December 15, 2018	July 1, 2019 – June, 30, 2020	This statement does not apply as SBCERA does not have an OPEB trust or pass through agency activities.
GASB Statement No. 86	<i>Certain Debt Extinguishment Issues</i>	Fiscal years beginning after June 15, 2019	July 1, 2019 – June, 30, 2020	The statement will not apply as SBCERA does not account or report in-substance defeasance of debt.

Future Accounting Pronouncements

Standard	Title	Effective Date	Year End Effective Date	Effect on SBCERA?
GASB Statement No. 87	<i>Leases</i>	Fiscal years beginning after December 15, 2019	July 1, 2020 – June 30, 2021	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. SBCERA's 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, 2019	July 1, 2020 – June 30, 2021	This statement does not apply as SBCERA does not have interest cost related to construction of an asset.
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, 2018	July 1, 2019 – June, 30, 2020	This statement does not apply as SBCERA does not have majority equity interests in legally separate organizations or component units.
GASB Statement No. 91	<i>Conduit Debt Obligations</i>	Fiscal years beginning after December 15, 2020	July 1, 2021 – June 30, 2022	This statement does not apply as SBCERA does not have conduit debt obligations.

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

Managing/Quality Control Partner



Neeraj Datta, CPA, CGMA

Engagement Partner