

**SAN BERNARDINO COUNTY EMPLOYEES
RETIREMENT ASSOCIATION**

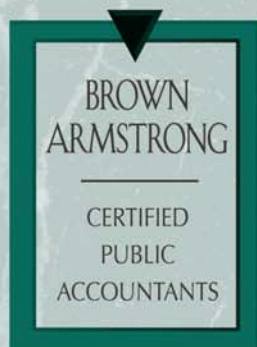
REPORT TO THE BOARD OF RETIREMENT

FOR THE YEAR ENDED JUNE 30, 2020

**SAN BERNARDINO COUNTY EMPLOYEES
RETIREMENT ASSOCIATION**

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BROWN ARMSTRONG

Certified Public Accountants

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 year ended June 30, 2020, and have issued our report thereon dated November 12, 2020. 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 June 1, 2020. 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. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by SBCERA during the 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.

BAKERSFIELD OFFICE (MAIN OFFICE)

4200 TRUXTUN AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

FRESNO OFFICE

10 RIVER PARK PLACE EAST
SUITE 208
FRESNO, CA 93720
TEL 559.476.3592

STOCKTON OFFICE

1919 GRAND CANAL BLVD
SUITE C6
STOCKTON, CA 95207
TEL 888.565.1040

WWW.BACPAS.COM

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.

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 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 November 12, 2020.

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 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 supplemental 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 supplemental information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

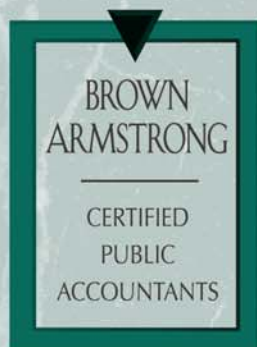
We did not audit the management's discussion and analysis; required supplemental information; or introduction, investments, actuarial, or statistical sections.

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
November 12, 2020



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

Board of Retirement
San Bernardino County Employees Retirement Association
San Bernardino, 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 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 year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise SBCERA's basic financial statements, and have issued our report thereon dated November 12, 2020.

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) 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 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 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*.

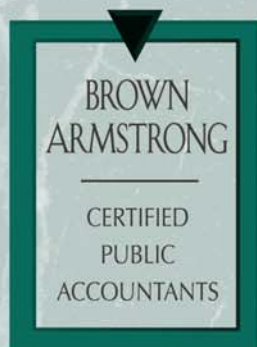
Purpose of this Report

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 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

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California
November 12, 2020



BROWN ARMSTRONG

Certified Public Accountants

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

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We have audited the financial statements of the San Bernardino County Employees Retirement Association (SBCERA) for the year ended June 30, 2020, and have issued our report dated November 12, 2020. 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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
November 12, 2020

Current 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, 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 move 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.

Status of Prior Year Agreed Upon Conditions and Recommendations

Agreed Upon Condition 1 – Participant Data

During our participant testing we noted the following:

- Out of the sixty active participants tested, one did not contain the required completed affidavit in participant's file.
- Out of the sixty retired participant's tested, one of the retiree's information wasn't presented to the Board of Retirement for their approval.

Recommendation

We recommend that all participant files are reviewed by a second individual to ensure all documents are included in all files and that all retiring members' information to be presented to the board for their approval.

Management Response

Missing enrollment affidavit: Prior to the discovery by Brown Armstrong, we realized the need to verify all demographic data in each participant's file near the time of enrollment. As a result, we have already developed a new account review type to specifically review for a completed enrollment affidavit, the correct age at entry and rate (Tier 1), and that all data in the file ties to the completed enrollment affidavit. We anticipate working through all 20,000ish of our active members by June 30, 2021. In the event that we discover any missing or incorrect items, immediate action will be taken with the employer to correct the situation.

Board approval absent: We reviewed the Board minutes and our Pension Gold database beginning 1/1/2018 for any items that may be present in once place, but not both. We found no other exceptions. As a part of our new Retiree Payment process (monthly) we now reconcile the published Board-approved list to the actual members being retired in our system. We have found no further instances of deviation.

Current Year Status

We noted no issues related to the above findings in the current year.

Agreed Upon Condition 2 – Lack of Approval for County Expenses

Per review of the County GL detail and discussion with Amy McInerny, CFO, 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 move 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

We agree that this finding is consistent with a weakness of internal control. We will work to create new controls and processes around the payment of invoices to the County that follow best practices for accounts payable and are consistent with all other accounts payable at SBCERA.

Current Year Status

See Current Year Agreed Upon Condition 1.