



BOARD OF RETIREMENT

Staff Report

File #: 19-961.1

Agenda Date: 7/2/2020

Agenda #: 13.

FROM: Amy McInerny, Chief Financial Officer

SUBJECT: FY 2020-21 Audit Workplan and Agreed Upon Procedures Reports

RECOMMENDATION:

Discuss FY 2020-21 Audit Workplan and determine three areas to contract for Agreed Upon Procedures Reports during FY 2020-21.

BACKGROUND:

In March 2018, the SBCERA Board approved a three-year Internal Audit Plan for Fiscal Years 2019, 2020 and 2021 (the "Plan"). At the time the Plan was approved, the expectation was that the Plan would be executed by an SBCERA internal auditor. That staff member was not able to complete any of the planned reports, and has left SBCERA's employment. As discussed with the Board on a number of occasions, the Plan is generally sound, and covers the areas of risks throughout most of the organization in categories of high, medium, and low. The Chief Executive Officer and Chief Financial Officer, both of whom were hired into their roles subsequent to the Plan's approval, believe that modifying how the Plan is implemented is appropriate:

1. Many of the Plan's work activities surround processes within the organization that are in the process of changing to improve efficiency, lower costs, and improve member service. The activities, particularly many of those in Fiscal Services and Member Services, are the subject of the ongoing "Pension Gold Refresh Project", which is using Lean Six Sigma tools to re-examine key work activities and implement process improvements. To audit these process areas at this time would likely be wasteful, as any findings on needed process improvements would be redundant to the ongoing project work.
2. The Board's Triennial Strategic Plan and Strategic Priorities establishes other projects, such as the telephone system replacement, which should be deferred from an audit perspective until they are in place and stabilized.
3. The work can be performed on a contract basis through Agreed Upon Procedures reports by *independent* accounting firms at a substantially reduced cost and greater levels of expertise than can be done by internal staff.

An "Agreed Upon Procedure" is a standard SBCERA would outline in hiring an external accounting firm to perform an audit on a specific test or business process. The procedures utilize audit standards, and would be designed and agreed upon with the external auditor. A firm or multiple firms would be selected based upon competitive Request for Proposals, in consultation with the Audit Committee. The approved FY 2020-21 budget includes \$45,000 for three Agreed Upon Procedures reports.

A copy of the Plan is attached as Exhibit A. Attached as Exhibit B is a table of Plan areas which Staff recommends for the Audit Committee's consideration of areas for review during FY 2020-21. Some of the Plan activities may appropriately be combined into one Agreed Upon Procedure, and are noted as such on the matrix.

Notably, no recommendations are included for Information Services ("IS") areas. Moss Adams has been contracted to perform an IS audit, including specific tests for cybersecurity risks. That work is expected to be completed in the fall of 2020, and the report will be provided to and discussed with the Audit Committee at its November meeting.

COMMITTEE REVIEW:

This item was reviewed by the Audit Committee at its June 18, 2020 meeting. The committee heard two motions, both of which passed with a 4-0 vote. The first motion recommended that the Board include a 7th category on the Audit Plan Matrix entitled "Governance & Compliance". The second motion recommended that the Board approve categories 1, 3 and 7 for the Agreed Upon Procedures Reports during FY 2020-21.

BUDGET IMPACT:

Costs for this item are included in the current year administrative budget.

STRATEGIC PLANNING GOAL/OBJECTIVE:

Prudent Fiscal Management

STAFF CONTACT:

Debby Cherney
Amy McNerny

ATTACHMENTS:

Exhibit A: Internal Audit Plan for FY 2019, 2020 and 2021
Exhibit B: Matrix for FY 2020-21 Agreed Upon Procedures