



San Joaquin County Employees Retirement Association

MINUTES

AUDIT COMMITTEE MEETING SAN JOAQUIN COUNTY EMPLOYEES RETIREMENT ASSOCIATION BOARD OF RETIREMENT FRIDAY, MAY 17, 2019 AT 11:35 AM

Location: SJCERA Board Room, 6 S. El Dorado Street, Suite 400, Stockton, California

1.0 ROLL CALL

1.01 MEMBERS PRESENT: Raymond McCray, Jennifer Goodman, Michael Restuccia (in at 11:38 a.m.) and Michael Duffy presiding

MEMBERS ABSENT: None

STAFF PRESENT: Chief Executive Officer Johanna Shick, Assistant Chief Executive Officer Kathy Herman, Financial Officer Lily Cherng, and Retirement Investment Accountant Fe Maliwat, Management Analyst III Greg Frank, Department Information Systems Analyst II Lolo Garza, and Retirement Administrative Assistant Andrea Bonilla

OTHERS PRESENT: Deputy County Counsel Matt Dacey, and Lindsey McGuire and Ashley Casey of Brown Armstrong Accountancy Corporation

2.0 2018 AUDIT EXIT CONFERENCE

2.01 Presentation of Audit Results by CPAs Lindsey McGuire and Ashley Casey of Brown Armstrong Accountancy Corporation

01 Ms. McGuire reviewed the presentation (excerpt attached) provided by Brown Armstrong and the related reports. She also noted that the reports are presented to the Committee as "draft," and will be provided in final form for submission to the full Board. Brown Armstrong has rendered an Unmodified Opinion, the highest possible, to SJCERA for the period ended December 31, 2018.

Ms. McGuire reminded the Audit Committee that the purpose of the audit is to ensure an independent person, other than the person who prepared the financial statements, reviews them to ensure they fairly represent the condition of the plan. A general review was given for the process/timelines. The Auditor comes on site first for the preliminary fieldwork to do testing while waiting for the books to be closed. They return in April once the books have been closed to conduct the final fieldwork and review the financial statements. The approach is risk based, thus they focus more intently on areas of higher risk of errors, misstatements, and fraud, such as investments and related earnings. The fair value of investments is more complex; therefore, the Auditors paid more attention on the verification of fair value.

Ms. McGuire then reviewed the following draft reports.

2.02 Draft Reports to the Board of Retirement

01 Communication with those charged with governance at or near the conclusion of an audit

Ms. McGuire explained that this is the independent auditor's report used to provide information to the Board of Retirement in accordance with professional standards of SAS No. 114. The Board of Retirement engages the audit firm, even though the Auditors work directly with staff. This report is a vehicle to report any disagreements with Management on accounting treatment/issues and any significant findings related to the audit. Ms. McGuire stated this report affirms there were no significant audit findings, material misstatements, or disagreements with management.

02 Report on internal control over financial reporting and compliance and other matters

Ms. Casey explained this is the independent auditor's report used to provide information to the Board of Retirement in accordance with Government Auditing Standards. It requires the auditor to communicate, in writing, to management and those charged with governance, significant deficiencies and material weaknesses identified in an audit. This report affirms that the auditor did not identify any deficiencies in internal control that is considered to be a material weakness.

2.03 Draft Annual Financial Report

01 Ms. Casey reported that Brown Armstrong has rendered an unmodified opinion, the highest possible, to SJCERA for the period ending December 31, 2018. No significant deficiencies, compliance issues or material weaknesses in internal controls were identified while conducting the audit. SJCERA's financial statements present fairly, in all material respects, fiduciary net position and changes in fiduciary net position for the year ended December 31, 2018, in conformity with generally accepted accounting principles.

02 Ms. McGuire thanked SJCERA staff for their diligent work and timely response to the auditors' requests.

2.04 The Audit Committee unanimously recommends that the Board of Retirement accept and approve the Auditor's Reports to the Board of Retirement and Annual Financial Report for the year ending December 31, 2018.

3.0 EXECUTIVE SESSION

3.01 The Chair convened Executive Session at 11:46 a.m. This session is added as a standing item to all Audit Committee Meetings to allow the Audit Committee to meet with the external Auditors without the presence of staff, thus there are no minutes of this session. The Executive Session concluded at 11:51 a.m.

4.0 AUDIT COMMITTEE CHARTER

4.01 Proposed draft Audit Committee Charter

4.02 The Committee unanimously recommends that the Board of Retirement adopt the Audit Committee Charter, with edits adding that the Auditors report to the Audit Committee as delegated authority from the Board and include the Audit Committee is to oversee the selection of the Auditor.

5.0 COMMENTS

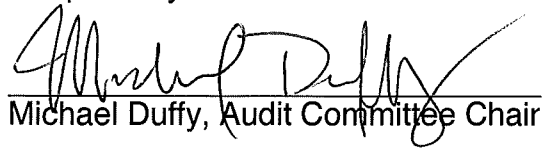
5.01 PUBLIC COMMENT - None


5.02 COMMENTS FROM THE COMMITTEE - None

6.0 ADJOURNMENT

6.01 There being no further business, the meeting was adjourned at 11:59 a.m.

Respectfully Submitted:


Michael Duffy, Audit Committee Chair



May 17, 2019

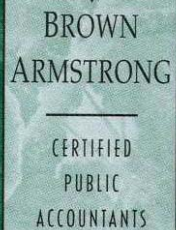
The Audit Committee
San Joaquin County Employees' Retirement Association
6 S. El Dorado St., Suite 400
Stockton, CA 95202

We are pleased to present to you the results of our audit of the San Joaquin County Employees' Retirement Association (SJCERA) financial statements for the year ending December 31, 2018.

We look forward to presenting the results of the audit and addressing your questions.

Sincerely,

Lindsey McGuire, Principal
Ashley Casey, Shareholder in Training (Acting Manager)
Brown Armstrong Accountancy Corporation



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Scope of Services Recap

- ❖ Audit of SJCERA's financial statements 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 (GAS)*, issued by the Comptroller General of the United States
- ❖ Other communications and reports required by professional standards including:
 - Required Communication at the Conclusion of an Audit in Accordance with Professional Standards (SAS 114)
 - Report on Internal Control Over Financial Reporting and on Compliance and Other Matters in Accordance with GAS

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Audit Timeline/Critical Dates List

- Planning Meeting SJCERA Management - January 24, 2019
- Audit Entrance Meeting - March 8, 2019
- Interim Fieldwork - March 18, 2019
 - On-Site Testing of Internal Controls
 - Walkthroughs and Understanding of Key Accounting Areas
 - Update Minutes and Agreements
- Exit Meeting to Discuss Results of Interim - March 20, 2019
- Final Fieldwork - April 8, 2019
 - Substantiate all Accounts and Balances
 - Review Confirmation Responses
- Exit Meeting to Discuss Results of Final - April 11, 2019
- Audit Opinions Issued - May 28, 2019 - Expected Issuance
- CAFR Review - June 2019

Audit Areas of Focus

Significant Risk Areas	Brown Armstrong's Response
Revenue recognition	<ul style="list-style-type: none">• Test of controls was performed over contribution amounts as part of participant data• Confirmations from third parties• Other substantive analytics were also performed
Management override of controls	<ul style="list-style-type: none">• An understanding of controls over journal entries was obtained and a sample of individual journal entries was performed• Inquiries performed with individual(s) involved in the financial reporting process, and ensuring no inappropriate or unusual activity was noted relating to journal entry processing• Performed 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 performed • High level analytics performed on investment income • Confirmation with custodian, managers, and consultants • Reviewed GASB Statement No. 72 valuation inputs and testing of Level determinations • Obtained 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"> • Confirmed with individual participants, actuary and employers • GASB Statements 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

Results of the Audit

Report	Summary
Required Communication at the Conclusion of an Audit in Accordance with Professional Standards (SAS 114)	<ul style="list-style-type: none">• Significant Estimates Reviewed<ul style="list-style-type: none">• Fair Value of Investments• Contribution and Net Pension Liability estimates<ul style="list-style-type: none">✓ Based on actuary assumptions• Corrected and Uncorrected Misstatements - None were material• Disagreements with Management - None

Results of the Audit

Report	Opinion or Required Communication
Report on Financial Statements (Opinion)	Unmodified
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>	No noncompliance noted No material weaknesses, significant deficiencies, or control deficiencies identified