



DRAFT MINUTES
AUDIT COMMITTEE
October 18, 2018
BOARD ROOM
348 WEST HOSPITALITY LANE, FIRST FLOOR
SAN BERNARDINO, CA

Trustees Present:

BRENDAN BRANDT, Committee Chair
LOUIS FIORINO, Committee Member
JOHN MICHAELSON, Committee Member
VERE WILLIAMS, Committee Member

Others Present:

DEBBY CHERNEY, Chief Executive Officer
BARBARA HANNAH, Chief Counsel
AMY MCINERNY, Interim Chief Financial Officer
JOSELEL ROMERO, Internal Auditor
CHRISTA JAMES, Recorder
JAKE ABBOT, Investment Officer
EYDIE COX, Senior Investment Analyst
JOSEPH MICHAEL, Chief Information Officer
EMELY MORENO, Investment Analyst
DONALD PIERCE, Chief Investment Officer
CHRISTIE PORTER, Chief Operating Officer
MICHAEL TAMONY, Communications Officer
AMIT THANKI, Investment Officer
ERIK TIGARD, Accounting Manager
LAURA VOSSMAN, Senior Investment Officer
TODD E. CROUTHAMEL, Kreisler Miller
NEERAJ DATTA, Brown Armstrong
THOMAS PETERS, Kreisler Miller

1. Call meeting to order.

Committee Chair Brandt called the meeting to order at 10:31 AM.

2. Action: Approve minutes of Audit Committee of May 3, 2018.

Michaelson moved, Brandt seconded, to Approve minutes of Audit Committee of May 3, 2018.

Ayes: Brandt, Fiorino, Michaelson, Williams
Motion Passed.

3. Action: Recommend the Board of Retirement authorize the Chief Executive

Officer to execute a five-year contract with an option, at SBCERA's discretion, for a three-year extension commencing with the June 30, 2019 audit of the basic financial statements with Brown Armstrong.

Amy McInerney, Staff, reviewed. Neeraj Datta, Brown Armstrong, provided comment.

Fiorino moved, Michaelson seconded, to Recommend the Board of Retirement authorize the Chief Executive Officer to execute a five-year contract with an option, at SBCERA's discretion, for a three-year extension commencing with the June 30, 2019 audit of the basic financial statements with Brown Armstrong.

Ayes: Brandt, Fiorino, Michaelson, Williams
Motion Passed.

4. Information: Status Report on the Internal Audit Plan as of June 30, 2018.

Amy McInerney, Staff, and Joselle Romero, Staff, reported.

5. Information: Presentation by Kreischer Miller of their SBCERA Executive Report dated October 2018.

Trustee Brandt left the meeting at 11:54 AM.

Trustee Fiorino assumed the roll of Committee Chair for the duration of the meeting.

Todd E. Crouthamel & Thomas Peters, Kreischer Miller, Presented.

PUBLIC COMMENT

No Public Comment was provided.

ADJOURN

Alternate Committee Chair Brandt adjourned the meeting at 12:01 PM.

Respectfully submitted,

BRENDAN BRANDT, Committee Chair

DEBBY CHERNEY, Chief
Executive Officer

DATED _____



**MINUTES
AUDIT COMMITTEE
May 3, 2018
BOARD ROOM
348 WEST HOSPITALITY LANE, FIRST FLOOR
SAN BERNARDINO, CA**

Trustees Present:

BRENDAN BRANDT, Committee Chair
LOUIS FIORINO, Committee Member
JOHN MICHAELSON, Committee Member
VERE WILLIAMS, Committee Member

Others Present:

MICHAEL CALABRESE, Chief Counsel
JULIE UNDERWOOD, Chief Fiscal Services
DONALD PIERCE, Chief Investment Officer
CHRISTA JAMES, Recorder

1. Call meeting to order.

Committee Chair Brandt called the meeting to order at 8:07 a.m.

2. Action: Approve minutes of Audit Committee of February 15, 2018.

Williams moved, Michaelson seconded, to Approve minutes of Audit Committee of February 15, 2018.

Ayes: Brandt, Fiorino, Michaelson, Williams
Motion Passed.

3. Action: Review and discuss the Request for Proposal process for actuarial auditing services, and recommend to the Board of Retirement to authorize the Managing Trustee to execute a one-year contract with Cheiron for actuarial auditing services for an amount not to exceed \$85,000.

Michaelson moved, Brandt seconded, to recommend that the Board of Retirement authorize the Managing Trustee to execute a one-year contract with Cheiron for actuarial auditing services for an amount not to exceed \$85,000.

Ayes: Brandt, Fiorino, Michaelson, Williams
Motion Passed.

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Audit Committee Minutes

May 3, 2018

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PUBLIC COMMENT

No Public Comment was provided.

ADJOURN

Committee Chair Brandt adjourned the meeting at 8:21 a.m.

Respectfully submitted,

BRENDAN BRANDT, Committee Chair

DONALD PIERCE, Acting
Board Secretary

DATED _____

**REPORT/RECOMMENDATION TO AUDIT COMMITTEE
OF SAN BERNARDINO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION**

October 18, 2018

FROM: AMY MCINERNY
Interim Chief Financial Officer

SUBJECT: Contract for Financial Statement Auditing Services with Brown Armstrong.

RECOMMENDATION:

Action: Recommend the Board of Retirement authorize the Chief Executive Officer to execute a five-year contract with an option, at SBCERA's discretion, for a three-year extension commencing with the June 30, 2019 audit of the basic financial statements with Brown Armstrong.

BACKGROUND INFORMATION:

On March 23, 2018, SBCERA issued a Request for Proposal for qualified Certified Public Accountant firms to serve as SBCERA's retained auditor to perform financial statement auditing services, including an annual attest audit of SBCERA's financial statements, a review and opinion on SBCERA's Comprehensive Annual Financial Report, and an audit of schedules and related notes pursuant to Governmental Accounting Standards Board Statement No. 68 commencing with the year ending June 30, 2019. The RFP was posted on SBCERA's website and as part of the process, SBCERA emailed the RFP to a list of known auditing firms. As of the proposal submission deadline of June 15, 2018 SBCERA received four responses from potential auditing firms. A team of qualified evaluators ranked each of the four proposers based on their qualifications.

Proposer	Average Annual Fee (Over 5 Years)
Brown Armstrong	\$72,440
Lance, Soll & Lunghard, LLP	\$79,637
Simpson & Simpson, LLP	\$89,000
Macias, Gini & O'Connell LLP	\$116,576

Based upon relevant experience, industry knowledge, referrals, fees, and other factors, the team of evaluators recommend Brown Armstrong be selected as SBCERA's financial statement auditor.

BUDGET IMPACT: Costs incurred for these services will be included in future years' administrative budgets.

ATTACHMENTS: No.

PRESENTER: Amy McInerny, Interim Chief Financial Officer

**REPORT/RECOMMENDATION TO AUDIT COMMITTEE
OF SAN BERNARDINO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION**

October 18, 2018

FROM: AMY MCINERNY
Interim Chief Financial Officer

SUBJECT: Internal Audit Plan – Status Report as of June 30, 2018.

RECOMMENDATION:

Information: Status Report on the Internal Audit Plan as of June 30, 2018.

BACKGROUND INFORMATION:

On March 1, 2018, the Board of Retirement approved a Three-Year Internal Audit Plan (Audit Plan) for the years ending June 30, 2019, 2020, and 2021. The purpose of this Status Report is to provide the Audit Committee and the Board with an update on the progress of the implementation of the Audit Plan.

The Internal Audit unit has completed all implementation projects pursuant to the Audit Plan as of June 30, 2018. Attached is a status report, which provides more comprehensive information about the plan over the next three years.

BUDGET IMPACT: None.

ATTACHMENTS: Exhibit A: Three-Year Internal Audit Plan – Status Update as of
June 30, 2018.

PRESENTER: Amy McInerny, Interim Chief Financial Officer

EXHIBIT A

**Three-Year Internal Audit Plan – Status Update as
of June 30, 2018**



THREE-YEAR INTERNAL AUDIT PLAN

**For the Years Ending
June 30, 2019, 2020, and 2021**

STATUS REPORT

As of June 30, 2018

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San Bernardino County Employees' Retirement Association
Three-Year Internal Audit Plan – Status Report
As of June 30, 2018

Introduction and Purpose

On March 1, 2018 the Board of Retirement (Board) approved a Three-Year Internal Audit Plan (Audit Plan) for the years ending June 30, 2019, 2020, and 2021. The Audit Plan outlines the Board's directive for the Internal Audit unit and provides that progress be reviewed at least annually by the Audit Committee. As this is the first time an Audit Plan has been prepared for SBCERA, the Internal Audit unit spent the remainder of the year ending June 30, 2018 preparing for the implementation of the Audit Plan.

The purpose of this Status Report is to provide the Audit Committee and the Board with an update on the progress of the implementation of the Audit Plan.

Status Report

The following is the status report for the steps taken to prepare for the implementation of the Audit Plan as of June 30, 2018:

Audit Plan Implementation Projects

Preparation for the Implementation of the Audit Plan	Status as of June 30, 2018
Develop Proposed Audit Committee and Internal Audit Charters to define the role of the Audit Committee and the Internal Audit unit, respectively.	Completed
Perform an organization-wide Risk Assessment that identifies Key Work Activities to be considered when preparing the Audit Plan.	Completed
Develop the Audit Plan for the years ending June 30, 2019, 2020, and 2021.	Completed
Develop the Internal Audit Operating Procedures Manual to execute the Audit Plan.	Completed

The Internal Audit unit also reviewed the risk assessment with Management in June 2018 for updates and significant changes to ensure that there were no significant changes in the risk scores used to develop the Audit Plan. There were no changes to the risk assessment or the Audit Plan as a result of this review.

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Three-Year Internal Audit Plan – Status Report (Continued)
As of June 30, 2018

Status Report (Continued)

The Audit Plan identifies 34 Key Work Activities (Projects) to be completed. The Internal Audit unit has reviewed and determined an estimated work plan for when the Projects will be completed as scheduled below. The planned timing of the estimated work plan is subject to change due to changes in assessed risks and other circumstances that occur during the audit.

Project Detail of Key Work Activities

Key Work Activities – High Risk				Estimated Work Plan		
#	Audit Plan #	Key Work Activity	Project	Planned 2018-2019	Planned 2019-2020	Planned 2020-2021
Benefits and Customer Service						
1	1	Accuracy of Member Information	Audit member records for a specified period to evaluate the accuracy and completeness of member records and payroll data submitted by participating employers.	X	X	
2	2	Accuracy of Member Information - Provided to Actuary	Audit process of providing information requested by the actuary for a specified period to assess whether the process is functioning as designed.		X	X
3	3	Accuracy of Member Information - System Updates from Actuary	Audit process of uploading updates/information from the actuary into Pension Gold for a specified period to assess whether the process is functioning as designed.		X	X
4	4	Death Benefit Processes - Payments to Beneficiaries	Audit process for verifying eligibility for survivor benefits, particularly minors, for a specified period to assess whether the surviving beneficiary eligibility verification process is functioning as designed.		X	X

**San Bernardino County Employees' Retirement Association
 Three-Year Internal Audit Plan – Status Report (Continued)
 As of June 30, 2018**

Status Report (Continued)

Project Detail of Key Work Activities (Continued)

Key Work Activities – High Risk				Estimated Work Plan		
#	Audit Plan #	Key Work Activity	Project	Planned 2018-2019	Planned 2019-2020	Planned 2020-2021
5	5	Disability Retirement Application Processes	Audit disability retirement application process for a specified period to assess whether process is functioning as designed.		X	X
6	6	Telephone System Processes	Internal Audit unit will monitor progress on Management's telephone system improvement project and perform limited procedures determined by the project status.	X	X	X
Financial and Investment Operations						
7	1	Cash Management	Audit cash management procedures for a specified period to assess if procedures are functioning as designed.		X	X
8	2	Contribution Reconciliation Processes	Audit procedures for reconciling participating employer contributions records to SBCERA's accounting records for a specified period to assess whether process is functioning as designed.	X	X	X
9	3	Participating Employer Contribution Processes - Pay Codes	Audit selected participating employer's procedures for processing payroll and contributions, particularly pay code determination for a specified period to assess whether process is functioning as designed. (See Note 1 on Page 9)	X	X	X

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Three-Year Internal Audit Plan – Status Report (Continued)
As of June 30, 2018

Status Report (Continued)

Project Detail of Key Work Activities (Continued)

Key Work Activities – High Risk				Estimated Work Plan		
#	Audit Plan #	Key Work Activity	Project	Planned 2018-2019	Planned 2019-2020	Planned 2020-2021
10	4	Participating Employer Contribution - Exception Reports	Audit selected participating employer's procedures for processing exception reports for a specified period to assess whether process is functioning as designed. (See Note 1 on Page 9)	X	X	X
11	5	Payroll Internal Controls - Normal Payroll	Audit normal payroll process for a specified period to assess whether normal payroll process is functioning as designed.	X	X	X
12	6	Payroll Internal Controls - Lump Sum Payroll	Audit lump sum payroll process for a specified period to assess whether process is functioning as designed.		X	X
13	7	Payroll Internal Controls - Manual Payroll	Audit manual payroll process for a specified period to assess whether manual payroll process is functioning as designed.		X	X
14	8	Payroll Internal Controls - Normal Payroll Benefit Calculation and Set-Up	Audit normal payroll benefit calculation procedures for a specified period to assess if normal retirement benefits are calculated correctly, particularly service credit determination, leave balance verification, birth date verification, and newly enrolled retirees benefit calculations.	X	X	X

**San Bernardino County Employees' Retirement Association
 Three-Year Internal Audit Plan – Status Report (Continued)
 As of June 30, 2018**

Status Report (Continued)

Project Detail of Key Work Activities (Continued)

Key Work Activities – High Risk				Estimated Work Plan		
#		Key Work Activity	Project	Planned 2018-2019	Planned 2019-2020	Planned 2020-2021
15	9	Payroll Internal Controls - Vendor Payroll	Audit vendor payroll procedures for a specified period to assess whether the vendor payroll process is functioning as designed.	X	X	X
Information Services (IS)						
16	1	IS Security - Application Security	Internal Audit unit will monitor the results of the data security project and the annual Information System Audit and perform limited procedures as determined by project status.	X	X	X
17	2	IS Security - Data Controls	Internal Audit unit will monitor the results of the data security project and the annual Information System Audit and perform limited procedures as determined by project status.	X	X	X
18	3	IS Security - Network Security	Internal Audit unit will monitor the results of the data security project and the annual Information System Audit and perform limited procedures as determined by project status.	X	X	X

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Three-Year Internal Audit Plan – Status Report (Continued)
As of June 30, 2018

Status Report (Continued)

Project Detail of Key Work Activities (Continued)

Key Work Activities – High Risk				Estimated Work Plan		
#	Audit Plan #	Key Work Activity	Project	Planned 2018-2019	Planned 2019-2020	Planned 2020-2021
19	4	IS Security - System Patching	Internal Audit unit will monitor the results of the data security project and the annual Information System Audit and perform limited procedures as determined by project status.	X	X	X
20	5	Disaster Recovery Plan	Internal Audit unit will monitor progress on Management's development of the Disaster Recovery Plan and perform limited procedures determined by the project status.	X	X	X
21	6	IS Training Plan	Internal Audit unit will monitor progress on Management's development of the IS Training Plan and perform limited procedures determined by the project status.	X	X	X
Key Work Activities - Medium Risk				Estimated Work Plan		
#	Audit Plan #	Key Work Activity	Project	Planned 2018-2019	Planned 2019-2020	Planned 2020-2021
Management Governance and Compliance						
22	1	Governance - Fraud	Review process of identifying, investigating, and reporting allegations of fraud, ethical misconduct or other matters as required. Perform investigation as requested by Management.			X

**San Bernardino County Employees' Retirement Associatio..
Three-Year Internal Audit Plan – Status Report (Continued)
As of June 30, 2018**

Status Report (Continued)

Project Detail of Key Work Activities (Continued)

Key Work Activities - Medium Risk				Estimated Work Plan		
#	Audit Plan #	Key Work Activity	Project	Planned 2018-2019	Planned 2019-2020	Planned 2020-2021
Benefits and Customer Service						
23	1	Benefit Payment Withholdings	Audit operational controls over the tax and other withholdings on payroll as selected for a specified period to assess whether process is functioning as designed.		X	X
24	2	Member Death Verification Process	Audit member death verification process including updates to member records as a result of enrollment information changes, personal information changes, family changes, and/or death of member or beneficiary for a specified period to assess procedures are functioning as designed.		X	X
25	3	Member Enrollment	Audit procedures of member enrollment for a specified period to assess whether procedures are functioning as designed.		X	X
26	4	Receipt Of Contributions	Audit operational controls over contributions receipts for a specified period to assess whether process is functioning as designed.			X

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San Bernardino County Employees' Retirement Association Three-Year Internal Audit Plan – Status Report (Continued) As of June 30, 2018

Status Report (Continued)

Project Detail of Key Work Activities (Continued)

Key Work Activities - Medium Risk				Estimated Work Plan		
#	Audit Plan #	Key Work Activity	Project	Planned 2018-2019	Planned 2019-2020	Planned 2020-2021
Financial and Investment Operations						
27	1	Accounting Processes - Accounts Payable	Audit accounts payable process for a specified period to assess whether the accounts payable process is functioning as designed.		X	X
28	2	Accounting Processes - Accounts Receivable	Audit accounts receivable process for a specified period to assess whether the accounts receivable process is functioning as designed.		X	X
29	3	Account Reconciliations - Bank Reconciliations	Audit bank reconciliation process for a specified period to assess whether the reconciliation process is functioning as designed.		X	X
30	4	Account Reconciliations - Investment Reconciliations	Audit investment reconciliation process for a specified period to assess whether the reconciliation process is functioning as designed.		X	X
31	5	Tax Filings	Audit tax tracking and filing process for a specified period to assess whether the process is functioning as designed.		X	X
32	6	Wire Transfer Processes	Audit SCBERA's wire transfer procedures for a specified period to assess whether process is functioning as designed.		X	X

**San Bernardino County Employees' Retirement Associatio..
 Three-Year Internal Audit Plan – Status Report (Continued)
 As of June 30, 2018**

Status Report (Continued)

Project Detail of Key Work Activities (Continued)

Key Work Activities - Medium Risk				Estimated Work Plan		
#	Audit Plan #	Key Work Activity	Project	Planned 2018-2019	Planned 2019-2020	Planned 2020-2021
Information Services						
33	1	IS Security - Physical Access to Data Center	Internal Audit unit will monitor the audit performed by external auditor retained to conduct an Information System Audit and perform limited procedures as determined by the project status.	X	X	X
34	2	IS Asset Management	Internal Audit unit will monitor the audit performed by external auditor retained to conduct an Information System Audit and perform limited procedures as determined by the project status.	X	X	X

Note 1: Participating employers are selected for testing based on size, risk, Management request, and other factors. A minimum of three participating employers will be tested, however, additional participating employers will be selected for limited testing as resources allow or as the need arises. The following participating employers have been selected: Hesperia Recreation and Park District, Inland Library System, and Law Library for San Bernardino County.

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**San Bernardino County Employees' Retirement Association
 Three-Year Internal Audit Plan – Status Report (Continued)
 As of June 30, 2018**

Status Report (Continued)

Over the course of the Audit Plan, the Internal Audit unit will continue to develop the following:

Other Audit Plan Projects

Project	Estimated Work Plan		
	Planned 2018-2019	Planned 2019-2020	Planned 2020-2021
Continue to review and expand the Internal Audit Operating Procedures Manual, as needed.	X	X	X
Perform an annual review of SBCERA's Risk Assessment used in the current Audit Plan and update the Risk Assessment, if needed, for any significant changes in risk scores, including any new risks that are identified. The results of this review will be presented to the Audit Committee annually.	X	X	X
Perform a new Risk Assessment that will identify Key Work Activities to be considered when preparing the Three-Year Internal Audit Plan for the years ending June 30, 2022, 2023, and 2024 (to be performed during the year ending June 30, 2021).			X
Develop the Audit Plan for the years ending June 30, 2022, 2023, and 2024.			X

Conclusion

Overall, the Internal Audit unit is on schedule pursuant to the Audit Plan approved by the Board.