

Board of Trustees

1000 Mill Street
San Luis Obispo, CA 93408
Phone: (805) 781-5465
Fax: (805) 781-5697
www.SLOPensionTrust.org



AGENDA

Audit Committee

Tuesday, February 19 1:00pm

SLOCPT Office
1000 Mill Street
San Luis Obispo, CA

PUBLIC COMMENT:

1. Members of the public wishing to address the Committee on matters other than scheduled items may do so when recognized by the chairman. Presentations are limited to three minutes per individual.

CONSENT:

2. Minutes of the Meeting of October 10, 2018. (Approve without correction).

OPERATIONS:

3. Audit Committee Entrance Presentation by Rosalva A. Flores, CPA (Engagement Partner), and Alaina Vandermade, CPA (Engagement Manager), from Brown Armstrong Accountancy Corporation.

ADJOURNMENT

Board of Trustees

1000 Mill Street
San Luis Obispo, CA 93408
Phone: (805) 781-5465
Fax: (805) 781-5697
www.SLOPensionTrust.org



**MINUTES –
Audit Committee of the
Board of Trustees**

October 10, 2018 4:00 PM

SLOCPT Office
1000 Mill St.
San Luis Obispo, CA

Present:

Audit Committee

Will Clemens

Jim Erb

Absent

Gere Sibbach (via phone)

SLOCPT Trust Staff

Carl Nelson

Executive Secretary

Amy Burke

Deputy Executive Secretary

Jennifer Alderete

Accountant

Call to Order:

4:02 PM

Public Comment:

- 1. None

Consent:

- 2. Minutes of the Audit Committee Meeting of June 15, 2018 –
Upon motion by Mr. Clemens / second by Mr. Erb, Approved unanimously.

Operations:

3. Financial Auditor – Renewal of Engagement with Brown Armstrong Accountancy – 2018-2022 Audits. The Audit Committee of the Board of Trustees reviewed the proposal from Brown Armstrong Accountancy and recommend approval to the full Board of Trustees of –
 - a. Approval of a five-year engagement with Brown Armstrong as detailed in the firm’s proposal.
 - b. With the condition that the five-year contract be acceptable to General Counsel and contain annual exit clauses consistent with industry practice.

Upon motion by Mr. Clemens / second by Mr. Sibbach, Approved unanimously.

Adjournment:

4:25 PM

Signed,

Carl Nelson
Executive Secretary

The San Luis Obispo County Pension Trust

Scope of Services Presentation to the Audit Committee for the December 31, 2018 Audit

Brown Armstrong

Accountancy Corporation

4200 Truxtun Avenue, Suite 300 | Bakersfield, CA 93309 | 661.324.4971 | Fax 661.324.4997

23272 Mill Creek Drive, Suite 255 | Laguna Hills, CA 92653 | 949.652.5422

www.bacpas.com

Contacts: Rosalva Flores, CPA
Alaina Vandermade, CPA

BROWN ARMSTRONG
Certified Public Accountants

February 19, 2019

The Audit Committee
The San Luis Obispo County Pension Trust
1000 Mill Street
San Luis Obispo, California 93408

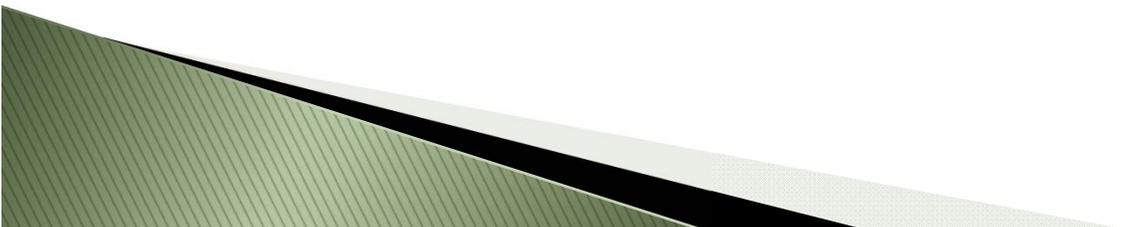
We are pleased to have the opportunity to discuss the scope of the audit and provide for open and continuous, two-way communication and reporting to management of the San Luis Obispo County Pension Trust (SLOCPT or Trust) for the year ended December 31, 2018.

This presentation has been prepared to discuss the proposed 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 SLOCPT.

Sincerely,

Rosalva Flores, Partner
Alaina Vandermade, Manager
Brown Armstrong Accountancy Corporation



BROWN ARMSTRONG
Certified Public Accountants

Contents

| | Page |
|--|------|
| ▶ Summary | 4 |
| ▶ The Engagement Team | 5 |
| ▶ Audit Timeline/Critical Dates List | 6 |
| ▶ Our Audit Objectives | 8 |
| ▶ Audit Strategy | 9 |
| ▶ Audit Approach | 10 |
| ▶ Significant Changes in the Audit Plan from Prior Year | 14 |
| ▶ Reports Expected to be Issued | 15 |
| ▶ Implementation of New Accounting Pronouncements Applicable for the December 31, 2018 Audit | 16 |
| ▶ Recently Released Accounting Pronouncements Applicable in Future Years | 17 |
| ▶ Questions | 19 |

Summary

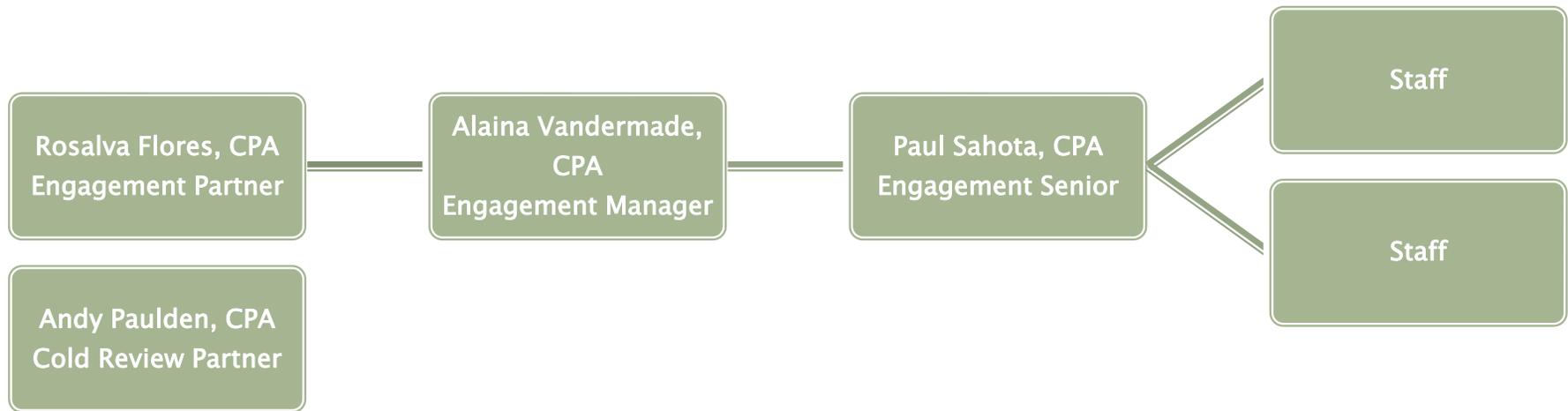
This document outlines our audit strategy and approach for the 2018 audit of SLOCPT and gives the Audit Committee the opportunity to review, discuss, and comment on our plan.

This document provides:

- ❖ An overview of our audit approach.
- ❖ Plan for continuous, two-way communication and reporting to the Audit Committee and management.
- ❖ Proposed audit timeline.
- ❖ Management's responsibilities in relation to the audit.
- ❖ The reports that will be issued.

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.

The Engagement Team



Audit Timeline/Critical Dates List

| Item | Due Date | Status |
|--|--------------------------------------|-------------|
| Active and Retired Populations provided to AUDITOR | Wednesday, 2/13/2019 | Complete. |
| Scope of services discussion between AUDITOR, TRUST staff and audit committee | 1:00 pm Tuesday, 2/19/2019 | In process. |
| AUDITOR to provide TRUST staff with sample section for confirmations | Friday, 2/15/2019 | |
| Confirmations returned to AUDITOR for mailing (*participants due later) | Friday, 2/22/2019 & *3/1/2019 | |
| AUDITOR to send confirmations 2nd request (*participants due later) | Monday, 3/15/2019 & *3/22/2019 | |
| Items on Interim & Final Fieldwork Information Request Lists due | Monday, 4/1/2019 | |
| Beginning of interim and final audit fieldwork at TRUST's office | Monday, 4/1/2019 | |
| Expected completion date of fieldwork, and exit conference with TRUST management | Thursday, 4/4/2019 | |
| TRUST/AUDITOR to provide Actuary Final December 31, 2018 statements | Monday, 4/22/2019 | |

Audit Timeline/Critical Dates List (Continued)

| Items | Due Date | Status |
|--|---|--------|
| Actuary to produce the final December 31, 2018 measurement date GASB 67/68 valuations | Monday, 5/6/2019 | |
| TRUST to provide Auditor with draft financial statements, note disclosures, reserve statement, draft CAFR sections | Friday, 5/17/2019 | |
| AUDITOR to perform work on the GASB 67/68 reports | Friday, 5/24/2019 | |
| Exit phone meeting to discuss audit results between AUDITOR, TRUST staff and audit committee | TBD – proposed 2 pm Wednesday, 5/29/2019 | |
| AUDITOR to provide TRUST management with Independent Auditor’s Report, Agreed Upon Conditions Report (Management Letter), Required Communication Report (SAS 114), Independent Auditor’s Report on Compliance and Internal Controls | DRAFT Friday, 5/31/2019 FINAL DRAFT Friday, 6/7/2019 | |
| Auditor to provide TRUST with comments on financial statements and note disclosures | Friday, 5/31/2019 | |
| AUDITOR presentation/delivery to TRUST Board of Retirement | 9:30 am Monday, 6/24/2019 | |
| AUDITOR to provide GASB 68 final report to TRUST for distribution to employers | Wednesday, 7/31/2019 | |

Our Audit Objectives

As the auditor for SLOCPT, we are responsible for reporting on the financial statements of SLOCPT for the year ended December 31, 2018. Our engagement is focused on delivering our services at three levels.

| | |
|-----------------------------------|---|
| For the public and SLOCPT | Independent opinions and reports that provide assurance on the financial information released by SLOCPT. |
| For the Audit Committee/ Board | Assistance in discharging its corporate governance compliance 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 SLOCPT'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*, 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.

Audit Strategy

| Phase I | Phase II | Phase III | Phase IV |
|--|--|---|--|
| Audit Planning | Interim Field Work | Final Field Work | Completion |
| Familiarize ourselves with operating environment | Assess internal control environment | Plan and perform substantive audit procedures | Perform completion procedures |
| Perform risk assessment procedures | Perform SAS 99 (fraud evaluation) procedures | Conduct final analytical review | Draft internal control and management letter comments |
| Determine planning materiality | Identify internal control strengths and weaknesses | Consider audit evidence sufficiency | Draft audit opinion and other reports |
| 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 administration | | Conduct exit conference with management, including discussion of proposed audit adjustments, internal control and compliance findings, and management letter recommendations, if any |
| Identify significant audit areas | Understand accounting and reporting activities | | Draft and obtain signed management representation letter |
| Determine nature and extent of audit procedures | Reevaluate the progress of the audit and make any changes on audit approach and procedures, if necessary | | Issue auditor's report, report on internal control, SAS 114 letter and management letter |
| Confirmation of account balances | | | Audit Committee meeting; presentation of audit results and discussion of all reports |

Audit Approach

▶ Investments and Related Earnings

◦ Investments in General

- Identify all investment accounts and portfolios
- Document our understanding of SLOCPT's internal controls over investments, including the following:
 - ❖ Establishment of investment policies and guidelines, including asset allocation and securities lending
 - ❖ Hiring and monitoring of asset managers, custodian banks, and other investment consultants
 - ❖ Determining fair values of investments
 - ❖ Account reconciliations and performance reviews
- Review SLOCPT's investment reconciliations
- Confirm year-end balances with master custodian and asset managers (including trade receivables and payables)
- GASB Statement No. 72 *Fair Value Measurement and Application*:
 - ❖ Obtain an understanding of management's methodology for classifying investments to comply with the standard
 - ❖ Review SLOCPT's fair value measurement and application for implementation
 - ❖ Review investment schedules and note disclosures and review for adequacy and compliance with the standard
- Select a sample of publicly traded investments and test fair values based on quoted market prices
- Verify accurate identification and financial reporting of deposit and investment risk
- Obtain audited financial statements and SOC reports

◦ Investment in Derivatives

- Review investment reports and third-party statements to substantiate the existence of derivatives
- Determine the appropriateness of the methodology used to value derivatives investments
- Compare fair values to quoted market prices, if available
- Perform tests of underlying data to determine the reasonableness of fair values for which quoted market prices are not available

Audit Approach (Continued)

- Investments in Real Estate
 - Review supporting documentation to substantiate the existence of real estate investments
 - Assess the qualifications of and nature of the work performed by external appraisal firms in accordance with SAS 73
 - Determine the appropriateness of the methodology used to value real estate investments
 - Compare the most recent real estate appraisals to reported real estate investments
 - Analytically review fair values as compared to prior periods and determine the reasonableness of valuations based on known trends and market conditions
 - Read interim investment reports and inquire of management to determine that outstanding commitments have been properly disclosed in the financial statements

- Alternative Investments (Direct Investments and Partnerships)
 - Review supporting documentation, such as partnership agreements, to substantiate the existence of alternative investments
 - Determine the appropriateness of the methodology used to value alternative investments
 - Compare the most recent audited financial statements and other investments reports to reported alternative investments
 - ❖ Consider fair value changes resulting from timing issues, including subsequent contributions and distributions, and propose adjustments as necessary
 - ❖ Analytically review fair values as compared to prior periods and determine the reasonableness of valuations based on known economic and business conditions

Audit Approach (Continued)

- Investment Income and Expenses

- Perform analytical procedures over reported balances; our work should normally cover a comparison of:
 - ❖ Current year operating results with the prior year
 - ❖ Key financial and operating ratios with the prior year, the industry, and with each other (e.g., actual, target, and benchmark performances, etc.)
 - ❖ Recalculate investment income and expenses to determine reasonableness
- Confirm balances with asset managers and custodian bank

- ▶ Participant Data and Employee/Employer Contributions

- Document our understanding of SLOCPT's internal controls over contributions from participating employees and member employers, including the following:

- Underlying authority for contributions (established law, contracts, and formulas)
- Process for enrolling new participants
- Determination of actuarially required contributions
- Payment of contributions and related account reconciliations

- Review SLOCPT's account reconciliations to determine accuracy and completeness

- Determine that contributions are consistent with actuarial requirements or plan provisions, as applicable

- Perform analytical procedures over reported contributions:

- Compare reported amounts to prior years, considering participation levels and funding requirements
- Assess the reasonability of contributions based on covered payroll and required contribution rates, as appropriate

Audit Approach (Continued)

▶ Participant Data and Benefit Payments

- Document our understanding of SLOCPT's internal controls over benefit payments, including the following:
 - Underlying authority establishing benefit provisions
 - Process for determining eligibility to receive benefits
 - Determination of benefit amounts based on established formulas/criteria
 - Payment of benefits and related account reconciliations
 - Select a sample of benefit payments and perform tests of significant internal controls and compliance
- Review SLOCPT's account reconciliations to determine accuracy and completeness
- Perform analytical procedures over reported benefits
 - Compare reported amounts to prior years, considering participation levels, benefit provisions, and inflationary or cost of living adjustment
 - Recalculate benefit payments to determine reasonableness
- Actuary Information
 - Review the actuarial valuation made by the actuarial firm, as it affects the financial statements
 - Perform testing over the actuary transmittal such as tracing participant information to the actuarial report
 - Determine that actuarial information presented in the footnotes to the financial statements and as required supplementary information is consistent with information contained in the actuarial valuation report and determine that the requirements of GASB Statement Nos. 25 and 50 have been satisfied

Significant Changes in the Audit Plan from Prior Year

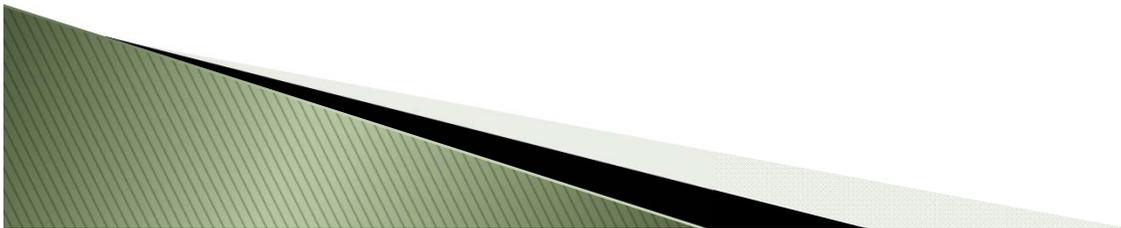
- ❖ Review biennial actuarial experience study completed by GRS as of January 1, 2018.

Reports Expected to be Issued

| ← | <i>Government Auditing Standards</i> | | → |
|--|---|---|---|
| GAAS Standards | | | |
| Independent Auditor's Report (Opinion) on Financial Statements | Required Communication to the Audit Committee and Board of Trustees in Accordance with Professional Standards (SAS 114) | Report on SLOCPT's Internal Control over Financial Reporting and on Compliance with Laws and Regulations "AKA" Yellow Book Report | Report on Agreed Upon Conditions Designed to Increase Efficiency, Internal Controls, and/or Financial Reporting "AKA" Management Letter |

Implementation of New Accounting Pronouncements Applicable for the December 31, 2018 Audit

| Standard | Title | Effective Date | December 31 Year End Effective Date | Effect on SLOCPT |
|-----------------------|---|--|-------------------------------------|---|
| GASB Statement No. 75 | <i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions</i> | Fiscal years beginning after June 15, 2017 | 2018 | Applicable to the Employer. |
| GASB Statement No. 85 | <i>Omnibus 2017</i> | Fiscal years beginning after June 15, 2017 | 2018 | The statement addresses various miscellaneous issues including fair value measurement and application. However, the impact is not expected to be significant. |



Recently Released Accounting Pronouncements Applicable in Future Years

| Standard | TITLE | EFFECTIVE DATE | December 31 Year End Effective Date | Effect on SLOCPT |
|-----------------------|---|--|-------------------------------------|--|
| GASB Statement No. 83 | <i>Certain Asset Retirement Obligations</i> | Fiscal years beginning after June 15, 2018 | 2019 | No expected to apply to SLOCPT as it relates to Asset Retirement Obligations (AROs). |
| GASB Statement No. 84 | <i>Fiduciary Activities</i> | Fiscal years beginning after December 15, 2018 | 2019 | This statement will not apply to SLOCPT as it does not have Fiduciary Funds. |
| GASB Statement No. 86 | <i>Certain Debt Extinguishment Issues</i> | Fiscal years beginning after June 15, 2019 | 2020 | The statement will not apply as SLOCPT does not account or report in-substance defeasance of debt. |
| GASB Statement No. 87 | <i>Leases</i> | Fiscal years beginning after December 15, 2019 | 2020 | 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. SLOCPT's potential impact upon implementation has not been determined. |

Recently Released Accounting Pronouncements Applicable in Future Years

(Continued)

| Standard | TITLE | EFFECTIVE DATE | December 31 Year End Effective Date | Effect on SLOCPT |
|-----------------------|---|--|-------------------------------------|---|
| GASB Statement No. 88 | <i>Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements</i> | Fiscal years beginning after June 15, 2018 | 2019 | The statement will not apply as SLOCPT does not account or report debt. |
| 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 | 2020 | The statement will not apply as SLOCPT does not account or report construction. |
| GASB Statement No. 90 | <i>Majority Equity Interests – an amendment of GAS Statements No. 14 and No. 61</i> | Fiscal years beginning after December 15, 2018 | 2019 | This statement will not apply to SLOCPT as it does not have Component Units. |

Questions?



Rosalva Flores, CPA |
Partner
BROWN ARMSTRONG
Certified Public Accountants
4200 Truxtun Avenue, Suite 300
Bakersfield, California 93309
Phone (661) 324-4971
Website: www.bacpas.com
Email: rflores@bacpas.com



Alaina Vandermade, CPA |
Manager
BROWN ARMSTRONG
Certified Public Accountants
23272 Mill Creek Drive, Suite 255
Laguna Hills, California 92653
Phone (949) 652-5422
Website: www.bacpas.com
Email: avandermade@bacpas.com