

Board of Trustees

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



AGENDA

Tuesday, February 15, 2022 12:30pm

Audit Committee

*** Online Only ***

MEETING MATERIALS

Materials for the meeting may be found at

<http://www.slocounty.ca.gov/Departments/Pension-Trust/Board-of-Trustees>

Any supporting documentation that relates to an agenda item for open session of any regular meeting that is distributed after the agenda is posted and prior to the meeting will also be available at this location.

AMERICANS WITH DISABILITIES ACT (Government Code §54953.2)

Disabled individuals who need special assistance to listen to and/or participate in any meeting of the Board of Trustees may request assistance by calling 805/781-5465 or sending an email to SLOCPT@co.slo.ca.us. Every effort will be made to reasonably accommodate individuals with disabilities by making meeting materials and access available in alternative formats. Requests for assistance should be made at least two days in advance of a meeting whenever possible.

*** TELE-CONFERENCE / VIDEO-CONFERENCE**

Due to the current pandemic Board of Trustees meetings are closed to the public attending in person until further notice.

This meeting of the Board of Trustees will be held via teleconference and/or videoconference. Pursuant to AB 361, and based on the guidance of our Public Health Officer, California Department of Public Health, the California Governor's Office, and data from the United States Centers for Disease Control, in order to minimize the spread of the COVID-19 virus, and to align with local and federal guidelines and social distance recommendations for the containment of the virus, we are authorized to hold public meetings via teleconferencing and to make public meetings accessible telephonically or otherwise electronically to all members of the public, without making available any physical location for the public. Items of business will be limited to the matters shown on the agenda.

If you wish to view the videoconference of the meeting please access

<https://us06web.zoom.us/j/84382574495?pwd=Y0kzejJrVEVNMmRjT1FIdjJ3M29pdz09>

If you wish to listen to the teleconference meeting, please dial 669/900-6833 (Meeting ID 843 8257 4495). If you have any questions or require additional service, please contact SLOCPT at 805/781-5465.

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 May 26, 2021. (Approve without correction).

OPERATIONS:

3. Audit Committee Entrance Presentation by Andrew Paulden, CPA (Engagement Partner), Lindsey McGuire, CPA (Engagement Partner), Alaina Vandermade, CPA (Engagement Manager), and Paul Sahota, CPA (Engagement Partner) from Brown Armstrong Accountancy Corporation.

ADJOURNMENT

Board of Trustees

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MINUTES – Audit Committee of the Board of Trustees

Wednesday, May 26, 2021 3:00pm
SLOCPT Office*
1000 Mill Street
San Luis Obispo, CA

** Note – all attendees participated via videoconference as noticed on the agenda for the meeting. Public access was available via videoconference or an audio-only phone-in line.*

Present:

Audit Committee

Jim Hamilton
Taylor Dacus
Lisa Howe

SLOCPT Trust Staff

Carl Nelson	Executive Director
Amy Burke	Deputy Director
Jennifer Alderete	Accountant

Brown Armstrong
Accountancy:

Rosalva Flores	Partner
Alaina Vandermade	Engagement Manager

Call to Order: 3:02 PM

Public Comment:

1. None

Consent:

2. Minutes of the Meeting of February 16, 2021 Audit Committee meeting. (Approve without correction).

Motion: Approve Minutes

Public Comment: None

Motion Made: Mr. Dacus

Motion Seconded: Ms. Howe

Carried: Unanimous (roll call vote)

Operations:

3. Audit Committee exit presentation and auditor reports - Rosalva A. Flores, CPA (Engagement Partner), and Alaina Vandermade, CPA (Engagement Manager), from Brown Armstrong Accountancy Corporation.
 - a. Review of audit timeline and areas of focus – particularly investment balances, contributions and benefits.
 - b. Expanded focus included Revenue Recognition, Management Override of Controls, Investment and Related Earnings, and Participant Data and Actuary.
 - c. 2020 Audit completed via virtual access due to Covid pandemic
 - d. Reports from Brown Armstrong
 - i. Report on Financial Statements – unmodified opinion
 1. One uncorrected immaterial misstatement due to lag in reporting of 12/31/21 market values for certain private market investments.
 - ii. Report on internal controls – no deficiencies or material weaknesses reported
 - iii. Agreed-upon conditions report recommendations -
 1. 2020 – none
 2. Prior year recommendations – all have implemented

Audit Committee discussion included –

- Private market asset values and lagged reporting.
- Audit Partner rotation – Rosalva Flores to rotate off SLOCPT audit (at 6-year limit) and another BA partner will be assigned for the 2021 audit.

Motion: No Action necessary – receipt of Brown Armstrong report only.

Public Comment: None

Adjournment: 3:36 PM

Signed,

Carl Nelson
Executive Director

The San Luis Obispo County Pension Trust

Scope of Services Presentation to the Audit Committee for the December 31, 2021 Financial Audit

Brown Armstrong

Accountancy Corporation

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

www.bacpas.com

Contacts: Andrew Paulden, CPA, Partner

Lindsey McGuire, CPA, Partner

Alaina Vandermade, CPA, Manager

Paul Sahota, CPA, Manager

BROWN ARMSTRONG
Certified Public Accountants

February 15, 2022

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, 2021.

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,

Andrew Paulden, CPA, Partner
Lindsey McGuire, CPA, Partner
Brown Armstrong Accountancy Corporation

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Summary

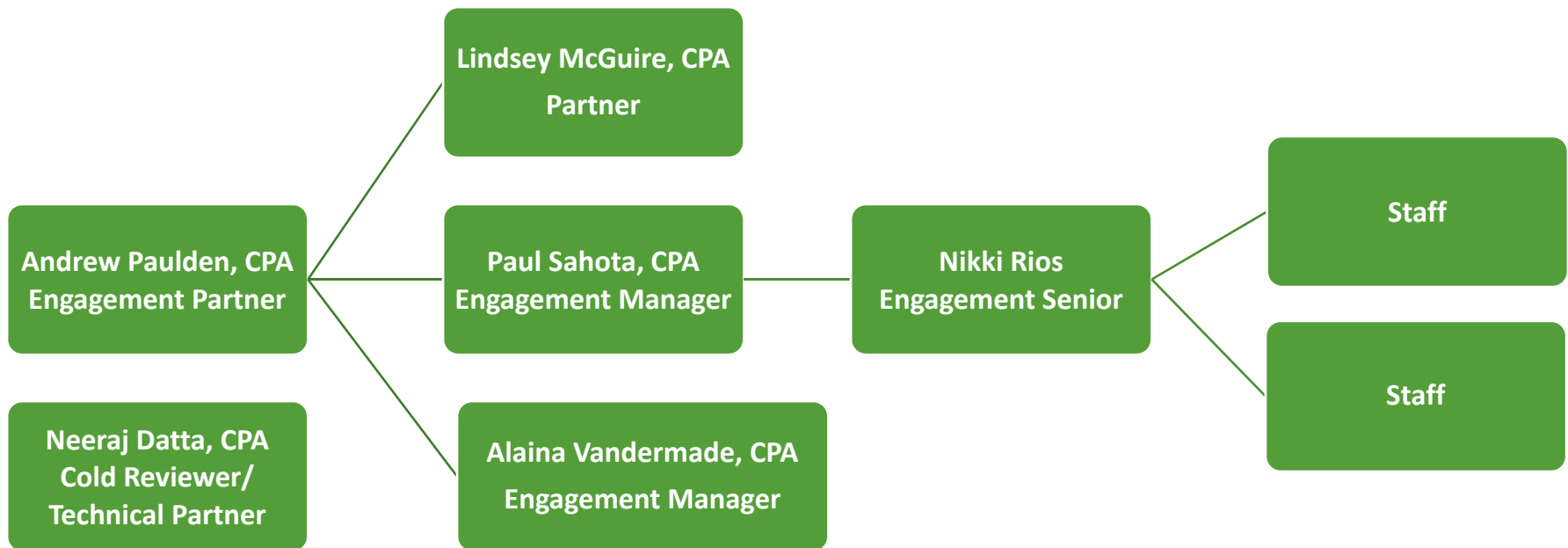
This document outlines our audit strategy and approach for the 2021 audit of SLOCPT and gives the Audit Committee the opportunity to review, discuss, and comment on our plan.

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
Participant Populations provided by TRUST to AUDITOR	Friday, 2/4/2022	Complete.
AUDITOR to provide TRUST with Participant sample sections for confirmations	Wednesday, 2/9/2022	Complete.
Entrance meeting between AUDITOR and TRUST and Audit Committee	Tuesday, February 15 at 12:30 pm	In process.
Confirmations returned to AUDITOR for mailing	Friday, 2/18/2022	
AUDITOR to send confirmations 2nd request	Friday, 3/18/2022	
Items on Interim & Final Fieldwork Information Request Lists due	Monday, 4/4/2022	
Beginning of <i>remote</i> interim and final audit fieldwork	Monday, 4/4/2022	
Expected completion date of fieldwork, and exit conference with TRUST management	Tuesday, 4/14/2022	Tentative.
TRUST/AUDITOR to provide Actuary Final December 31, 2021 statements	Monday, 4/25/2022	

Audit Timeline/Critical Dates List (Continued)

Items	Due Date	Status
TRUST to provide Auditor with draft financial statements, note disclosures, reserve statement, draft ACFR sections	Wednesday, 5/11/2022	
Actuary to produce the final December 31, 2021 measurement date GASB 67/68 valuations	Friday, 5/13/2022	
AUDITOR to perform work on the GASB 67/68 reports	Friday, 5/20/2022	
AUDITOR to provide TRUST management with DRAFT Independent Auditor's Report, Agreed Upon Conditions Report (Management Letter), Required Communication Report (SAS 114), and Independent Auditor's Report on Compliance and Internal Controls	DRAFT Friday, 5/20/2022; FINAL DRAFT Friday, 6/3/2022	
Exit phone meeting to discuss audit results between AUDITOR, TRUST staff and Audit Committee	Wednesday, 5/25/2022 At 3:00 pm	Tentative.
Auditor to provide TRUST with comments on financial statements and note disclosures	Friday, 5/27/2022	
AUDITOR presentation/delivery to TRUST Board of Retirement	9:30 am Monday, 6/27/2022	
AUDITOR to provide GASB 68 final report to TRUST for distribution to employers	Friday, 7/30/2022	

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, 2021. 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

- Significant Risk Areas:
 - Revenue recognition
 - Management override of controls
- 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

- 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 No. 25 and 50 have been satisfied

Significant Changes in the Audit Plan from Prior Year

- ❖ Travel testing – depending on travel expenses, test amendments to Appendix A
- ❖ Investment Manager Fees – select a sample of investment manager fees and recalculate fee based on contract
- ❖ Investment Insurance Certificates – select a sample of investment managers and review for insurance coverage in accordance with contract
- ❖ Purchase Service Credit –select a sample of participants that purchased service credit for participant testing
- ❖ Surprise test to be performed remotely during the week of fieldwork

Reports Expected to be Issued

	<i>Government Auditing Standards</i>		
GAAS Standards			
Independent Auditor's Report (Opinion) on Financial Statements	Report on SLOCPT's Internal Control over Financial Reporting and on Compliance with Laws and Regulations "AKA" Yellow Book Report	Required Communication to the Audit Committee and Board of Trustees in Accordance with Professional Standards (SAS 114)	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, 2021 Audit

Standard	Title	Effective Date	December 31 Year End Effective Date	Effect on SLOCPT
GASB Statement No. 89	Accounting for Interest Cost Incurred before the End of a Construction Period	Fiscal years beginning after December 15, 2020	2021	The statement will not apply as SLOCPT does not account or report construction.
GASB Statement No. 93	Replacement of Interbank Offered Rates	Fiscal years beginning after June 15, 2020	2021	The statement will not apply as SLOCPT does not have interbank offered rates.
GASB Statement No. 94	Public-Private and Public-Public Partnerships and Availability Payment Arrangements	Fiscal years beginning after June 15, 2020	2021	This statement will not apply to SLOCPT as it does not have these types of payment arrangements.
GASB Statement No. 98	The Annual Comprehensive Financial Report (ACFR)	Fiscal years beginning after December 15, 2021	2022	SLOCPT early implemented this Statement in FY2020.

Implementation of New Accounting Pronouncements Applicable for the December 31, 2021 Audit (Continued)

Standard	Title	Effective Date	December 31 Year End Effective Date	Effect on SLOCPT
GASB Statement No. 97	Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statement No. 14 and No. 84, and a supersession of GASB Statement No. 32	Paragraphs 4 and 5 effective immediately; paragraphs 6-9 effective fiscal years beginning after June 15, 2021; all others effective fiscal years beginning after June 15, 2021	2021 and 2022	The statement will not apply as SLOCPT does not have component units or a 457 DC Plan.

Recently Released Accounting Pronouncements Applicable in Future Years

Standard	Title	Effective Date	December 31 Year End Effective Date	Effect on SLOCPT
GASB Statement No. 87	Leases	Fiscal years beginning after June 15, 2021*	2022	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.
GASB Statement No. 91	Conduit Debt Obligations	Fiscal years beginning after December 15, 2021*	2022	This statement will not apply to SLOCPT as it does not have debt obligations.
GASB Statement No. 92	Omnibus 2020	Paragraphs related to Statement No. 87 and implementation guide 2019-3, reinsurance recoveries, to implement with GASB No. 87; all others effective fiscal years beginning after June 15, 2021	2022	See GASB Statement No. 87. Others will not apply to SLOCPT.
GASB Statement No. 96	Subscription-Based Information Technology Arrangements	Fiscal years beginning after June 15, 2022	2023	SLOCPT to determine effect.

Questions?



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