

Fresno County Employees' Retirement Association

Financial Statement Audit Plan and Communication to Governance

June 30, 2019

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Agenda



Requirements and Deliverables

- Task Requirements and Deliverables
 - Conduct an audit of the basic financial statements of the Plan for the year ending June 30, 2019 in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards.
 - Issue an opinion on the fairness of the basic financial statements.
 - Issue a report on operational, internal control and financial matters as required under Governmental Auditing Standards.
 - Expand testing in selected areas and/or examine special areas of concern throughout the engagement and upon the request of the Retirement Board.
 - Ensure that transactions that could have a direct and material effect on the financial statements are executed in accordance with applicable laws and regulations.



Required Communications to Governance

- We are responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of those charged with governance are presented fairly, in all material respects, in conformity with generally accepted accounting principles in the United States of America.
- The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
- We are responsible for performing the audit in accordance with generally accepted auditing standards. The audit is designed to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement.



Required Communications to Governance (Cont'd)

- In planning and performing our audit, we will consider the Plan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting.
- If we identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, we will report them to you.
- As part of obtaining reasonable assurance about whether the plan's financial statements are free of material misstatement, we will perform tests of its compliance with certain provisions of laws, regulations, contracts, and noncompliance which could have a direct and material effect on the determination of financial statement amounts.



Required Communications to Governance (Cont'd)

- We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Auditing standards do not require us to design procedures to identify other matters to communicate with those charged with governance.
- When applicable, we are responsible for communicating particular matters required by laws or regulations, by agreement with the entity or by additional requirements applicable to the engagement.



Required Communications to Governance (Cont'd)

- Our responsibility for other information in documents containing the financial statements and auditor's report does not extend beyond the financial information identified in our report. We will not perform any procedures to corroborate other information contained in the document. However, we will read management's discussion and analysis of financial conditions and results of operations and consider whether the information or the manner in which it was presented was materially inconsistent with information or the manner of presentation of the financial statements.



Risk Assessment Procedures

- Risk Assessment Standards require that we obtain an understanding of internal control by performing a variety of procedures.
- Information that we obtain by performing these procedures must be as rigorous as the procedures to verify an account balance or the existence of investments.
- We are required not only to document the process, but also the detail controls in place.
- We have to determine that the controls are reasonable, and verify that they are followed through.



Risk Assessment Procedures (Cont'd)

- We have to consider the question “What could go wrong?” We are required to focus on the exceptions to the rule, such as:
 - “What happens when the approver is on vacation?”
 - “What happens when a participant dies? How does FCERA receive the information?”
 - “What happens if the calculation is found to be incorrect?”



Risk Assessment Procedures (Cont'd)

- We expect our risk assessment procedures will identify the follow groupings as significant processes based on our experience from similar engagements:
 - ◇ Traditional Investments and Related Income Process
 - ◇ Alternative Investments and Related Income Process
 - ◇ Contributions Process
 - ◇ Benefit Payment Process
 - ◇ Participant Information (Census) Process
 - ◇ Financial Close and Reporting
- In conjunction with our risk assessment procedures we will include a review of the controls over information technology.

Consideration of Fraud

- Certain audit procedures are designed to address the consideration of fraud in a financial statement audit, and they are:
 - Examine journal entries and other adjustments for evidence of possible material misstatement due to fraud.
 - Review accounting estimates for biases that could result in material misstatement due to fraud.
 - Evaluate the business rationale for significant unusual transactions.
 - Evaluate revenue recognition policies.
 - Maintain professional skepticism among all level of staff involved on the engagement.
 - Interviews with Plan personnel and others charged with governance.
 - Brainstorming meeting involving all staff on the engagement.
 - Audit unpredictability.



Fraud Interviews

- Inquiries about the risk of fraud are required for every audit. The majority of our inquiries will be made during the fieldwork phase of the audit. Inquiries will be made of the following personnel:
 - Management
 - Others within the organization
 - Members of the Board or Committees



Brainstorming Meetings

- An initial brainstorming meeting includes all engagement staff, led by the manager and engagement principal assigned to the engagement.
- This meeting identifies preliminary risk areas and audit procedures we will perform to address those risks.
- Subsequent to the initial brainstorming meeting, the engagement principal discusses the engagement, related risks and audit procedures with the unassociated principal.
- After receiving Risk Assessment forms back from FCERA and performing tests of design, we will have one final brainstorming meeting prior to final fieldwork which will include all personnel assigned to the engagement.



Preliminary Analysis

- Our preliminary analysis will be conducted by review of:
 - Board and committee meeting minutes
 - Changes in the Plan documents, relevant laws and accounting standards and actuary report(s)
 - Interviews with members of management
 - The most recent financial statement data
 - Information publicly available regarding the following areas:
 - ◇ General market conditions
 - ◇ Employment data and trends



Planning Materiality

- Materiality is defined as the magnitude of omission or misstatement individually or in the aggregate that in light of the surrounding circumstances, makes it probable that the judgment of a reasonable person relying on financial statements would have been changed or influenced by such omission or misstatement.
- Testing of contributions, participant information and distributions will be based on random sampling of the population of members, and selection of members will not be based on size of benefit or contribution.



Planning Materiality

- Qualitative considerations will also influence any conclusions about whether misstatements or the effect of errors are material. Examples of qualitative factors that may be considered relevant concerning misstatements or errors are as follows:
 - The potential effect of the misstatement on trends, especially investment income.
 - The potential effect of the misstatement on compliance with legislation.
 - The likelihood that a misstatement that is currently immaterial may have a material effect in future periods due to a cumulative effect.
 - The potential effect of an error in demographic information on the actuarially determined liability.
 - The sensitivity of the circumstances surrounding the misstatement, for example, the implications of misstatements involving fraud and possible illegal acts, violations of contractual provisions, and conflicts of interest.

Significant Processes and Audit Areas

- We have identified the following areas as significant processes and audit areas:
 - Investments, Investment Income and Expenses
 - ◇ Investments – Alternative and Real Estate (Not Publicly Traded)
 - ◇ Investments – Traditional (Publicly Traded)
 - Contributions/Member Testing
 - ◇ Employer and Member Contributions
 - ◇ Demographic and Financial Information of Members
 - Distributions
 - ◇ Defined Benefit Distributions (Annuities)
 - ◇ Lump Sum Distributions (Refunds of Contributions)
 - Financial Statement Preparation Process



Investments, Investment Income and Related Expenses

- Investments – Alternative and Real Estate
- The following represents our general audit approach:
 - Send confirmations to investment managers to verify existence.
 - Test the fair value estimate.
 - In consideration of internal controls, we will test the design of controls of the alternative investment cycles.
 - Test the accuracy of investment earnings and fees.
 - Test the compliance to the investment policy and agreements.
 - Test the allocation of the alternative investments.
 - Review and test information contained in disclosures.



Investments, Investment Income and Related Expenses

- Investments – Traditional
- The following represents our general audit approach:
 - Confirm with the custodian to verify existence.
 - Test the reported fair value. We will also review the investments for any that are inactive markets and for long-term devaluation.
 - In consideration of internal controls, we will test the designs of controls of traditional investment cycles and examine the SOC 1 Report for the custodian.
 - Test the accuracy of investment earnings and fees.
 - Test the compliance to the investment policy.
 - Test the allocation of the traditional investments.
 - Review and test information contained in disclosures.



Contributions/Member Testing

- Employer and Member
- The following represents our general audit approach:
 - Confirm employer and member amounts contributed to the Plan for employers to test completeness.
 - Recalculate selected contributions for accuracy and completeness.
 - Compare actual contributions to required contributions for completeness.
 - Test members' census data and compare information included in census to payroll information obtained from employers.
 - Complete an analysis of expected contribution amounts based on number of employees and required contributions to actual contributions.
 - In consideration of internal controls, we will test the designs of controls of the contribution cycles.
 - Additional testing over employers' payroll and information submitted for the actuarial census will be tested in connection with the requirements of GASB 67.



Benefit Distributions

- The following represents our general audit approach:
 - Recalculate benefit payments for selected members to determine that they are in compliance with prescribed benefits.
 - Compare prior existing benefits to current benefits for selected members to determine that changes are allowable due to changes in members status.
 - Compare selected retired members or beneficiaries to databases for deaths.
 - Perform tests of effectiveness of selected controls for the defined benefit payment process.
 - Test processes and disbursements of refunds of contributions.
 - Test retirees' census data to ensure information in the census is accurate and complete.
 - Perform data analytics over annuity payments to retirees



Financial Statement Process

- All financial statement numbers in the basic financial statements will be agreed to groupings from the general ledger. For any amounts that cannot be tied to groupings from the general ledger, we examine reclassifications and their support.
- The Government Finance Officers Association's Financial Reporting Preparers Checklist for Pension Systems will be used to assess the presentation of the financial statements. All information contained in the CAFR that is outside of the audited information will be read and compared to the audited financials statements, notes to the audited financial statements and required supplementary information to determine that there is nothing that contradicts the audited financial statements.
- All information included in the basic financial statements, notes to the financial statements and required supplementary information will be agreed to audited financial data.



Tentative Schedule

- Audit progress briefings will be provided as requested. Status updates will be provided to management either on a set schedule or by request.

Deliverable	Start Date	Completion Date
Entrance Conference	May	May
Planning and Risk Assessment	July	July
Year-end Test Procedures	July	November
Draft Opinion		November
Draft Management Letter		November
Final Opinion		December
Board Presentation		December



Audit Committee Input

Questions?

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