

**Executive Team:**

**Dominic D. Brown, CPA, CFE**  
Chief Executive Officer

**Daryn Miller, CFA**  
Chief Investment Officer

**Jennifer Zahry, JD**  
Chief Legal Officer

**Matthew Henry, CFE**  
Chief Operations Officer



**Board of Retirement:**

Phil Franey, Chair  
David Couch, Vice-Chair  
Jordan Kaufman  
Juan Gonzalez  
Joseph D. Hughes  
John Sanders  
Rick Kratt  
Tyler Whitezell  
Dustin Contreras, Alternate  
Chase Nunneley, Alternate  
Robb Seibly, Alternate  
3rd Member (Vacant)

January 12, 2024

Members, Board of Retirement  
Employee Bargaining Units  
Requesting News Media  
Other Interested Parties

Subject: Meeting of the Kern County Employees' Retirement Association Finance Committee

Ladies and Gentlemen:

A meeting of the Kern County Employees' Retirement Association Finance Committee will be held on Thursday, January 18, 2024 at 2:30 p.m. in the KCERA Boardroom, 11125 River Run Boulevard, Bakersfield, California, 93311.

**How to Participate: Listen to or View the Board Meeting**

To listen to the live audio of the Board meeting, please dial one of the following numbers (for best audio a landline is recommended) and enter ID# 880 7853 9673

- (669) 900-9128; U.S. Toll-free: (888) 788-0099 or (877) 853-5247

To access live audio and video of the Board meeting, please use the following:

- <https://us02web.zoom.us/j/88078539673?pwd=ZVZ0bTAvQldCeGISYIY1RUo1aDJMdz09>
- Passcode: 138998

Items of business will be limited to the matters shown on the attached agenda. If you have any questions or require additional service, please contact KCERA at (661) 381-7700 or send an email to [administration@kcera.org](mailto:administration@kcera.org).

Sincerely,

Dominic D. Brown  
Chief Executive Officer

Attachments

**AGENDA:**

All agenda item supporting documentation is available for public review on KCERA's website at [www.kcera.org](http://www.kcera.org) following the posting of the agenda. Any supporting documentation that relates to an agenda item for an open session of any regular meeting that is distributed after the agenda is posted and prior to the meeting will also be available for review at the same location.

**AMERICANS WITH DISABILITIES ACT  
(Government Code §54953.2)**

Disabled individuals who need special assistance to listen to and/or participate in the meeting of the Board of Retirement may request assistance by calling (661) 381-7700 or sending an email to [administration@kcera.org](mailto:administration@kcera.org). 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 (2) days in advance of a meeting whenever possible.

**CALL TO ORDER**

**ROLL CALL (IN PERSON)**

**AB 2449 REMOTE APPEARANCE(S)**

*Items 1 and/or 2 withdrawn from agenda if no trustees will have a need to appear via teleconference:*

The first two items on the agenda are reserved for trustees who have a need to appear via teleconference due to a "just cause" need or an "emergency circumstance." Trustees who have notified this Committee before agenda-posting will be called upon and will provide a general description of their need to attend via teleconference as allowed by law. Trustees who were not able to notify the Committee in advance of posting and have a need to attend via teleconference will state their notification or request when called upon to do so. All trustees appearing via teleconference will need to disclose any adult person(s) present in the room of their remote location and their relationship to such person(s). Trustees appearing remotely are reminded to keep their camera on throughout the meeting.

**1. JUST CAUSE CIRCUMSTANCE(S):**

- a) The following Trustee(s) have notified the Committee of a "Just Cause" to attend this meeting via teleconference. (See Government Code § 54953).
  - NONE
- b) Call for Trustee(s) who wish to notify the Committee of a "Just Cause" to attend this meeting via teleconference. (See Government Code § 54953).

2. EMERGENCY CIRCUMSTANCE(S):

a) The following Trustee(s) have requested the Committee approve their attendance of this meeting via teleconference due to an “Emergency Circumstance.” (See Government Code § 54953).

- NONE

b) Call for Trustee(s) requesting the Committee approve their attendance of this meeting via teleconference due to an “Emergency Circumstance.” (See Government Code § 54953).

TAKE ACTION ON REQUEST(S) FOR REMOTE APPEARANCE

**CONSENT MATTERS**

All items listed with an asterisk (\*) are considered to be routine and non-controversial by staff and will be approved by one motion if no member of the Committee or public wishes to comment or ask questions. If comment or discussion is desired by anyone, the item will be removed from the consent agenda and will be considered in the listed sequence with an opportunity for any member of the public to address the Committee concerning the item before action is taken. Staff recommendations are shown in caps after each item.

- \*3. [Memo from Chief Operating Officer Matt Henry regarding application of the Actuarial Valuation to the Declining Employer Payroll Policy; SRBR Policy; and the evaluation of Amortization Periods](#) – RECOMMEND THE BOARD OF RETIREMENT RECEIVE AND FILE
4. [Trustee education regarding Other Audit Services and Agreed Upon Procedures Engagements presented by Chief Executive Officer Dominic Brown, CPA, and Tim Rawal, CPA, UHY LLP](#) – RECEIVE EDUCATIONAL TRAINING (15 MINUTES EDUCATIONAL CREDIT)
5. [Presentation and discussion of the inaugural internal and plan sponsor audit plan for the FY 2023-24, presented by Chief Executive Officer Dominic Brown and Chief Operations Officer Matthew Henry](#) – APPROVE

**PUBLIC COMMENTS**

6. The public is provided the opportunity to comment on agenda items at the time those agenda items are discussed by the Committee. This portion of the meeting is reserved for persons to address the Committee on any matter not on this agenda but under the jurisdiction of the Committee. Committee members may respond briefly to statements made or questions posed. They may ask a question for clarification and, through the Chair, make a referral to staff for factual information or request staff to report back to the Committee at a later meeting. Speakers are limited to two minutes. Please state your name for the record prior to making a presentation.


**REFERRALS TO STAFF, ANNOUNCEMENTS OR REPORTS**

7. On their own initiative, Committee members may make a brief announcement, refer matters to staff, subject to KCERA's rules and procedures, or make a brief report on their own activities.
8. Adjournment



**Date:** January 18, 2024

**To:** Trustees, Finance Committee

**From:** Matthew Henry, Chief Operations Officer 

**Subject:** **Application of Actuarial Valuation to SRBR, and Declining Employer Payroll Policies. Evaluation of Amortization Period**

This memo updates your Committee on the application of the annual Actuarial Valuation (valuation) to both the SRBR and Declining Employer Payroll policies. Staff also evaluated the amortization period currently being used in the valuation.

The valuation concluded that the SRBR benefits are actuarially funded within the range specified by policy that require no modification or suspension of benefits by this Committee and Board of Retirement. In conjunction with the valuation and staff's review of plan sponsors currently designated as declining employer and those under watch for declining employer there are no recommended changes. Staff will continue to monitor and bring to your committee any plan sponsor meeting the Declining Employer Payroll policy's triggering events.

Staff has also evaluated the amortization bases used in the valuation. There are two periods that were under evaluation, one for assumption changes and actuarial gains or losses (18 years) and the second for non-investment gains and losses. At this time there are no recommended changes to the length of amortization periods.

Therefore, it is recommended that your Committee forward this report to the Board of Retirement to receive and file.



# Kern County Employees' Retirement Association



## Other Audit Services

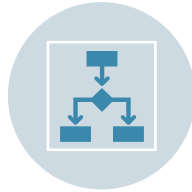
*January 18, 2024*



# Overview



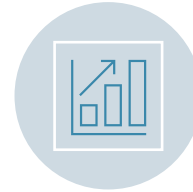
ENGAGEMENT  
BACKGROUND



AUP BACKGROUND  
AND NUANCES



INITIAL AUDIT PLAN  
AND TIMELINE



ROLES IN PROCESS



QUESTIONS?

# Engagement Background

- Other Audit Services

- UHY, LLP was contracted in April 2023 to perform certain engagements as “Other Audit Services” for KCERA
- Engaged to assist KCERA, through attest ‘sub-engagements’, in starting its audit and compliance function.
- UHY, LLP, as KCERA’s auditors, are required to maintain independence through the performance of these services
- Reports will be issued under attestation standards, similar to those applicable for financial audits.





# Agreed Upon Procedures (AUP) vs. Audit Background

- Financial Audit

- Comprehensive examination of KCERA's financial statements and records to obtain 'reasonable assurance' over the fairness and accuracy of information being presented
- Expression of an opinion on the financial statements, disclosures and other audited information
- Risk-based approach; standard requirements for testing
- Involves several phases of testing and review (planning, risk assessment, testing, reporting)
- Requires auditors to be independent of KCERA



# Agreed Upon Procedures (AUP) vs. Audit Background

- Agreed Upon Procedures
  - Report on the factual results of testing of specific procedures selected by client for a specific ‘intended purpose.’
  - No opinion is rendered; report lists out procedures performed and results of testing
  - KCERA (and other specified parties – i.e. governance, Plan sponsors) agree to the procedures to be performed by UHY
  - Procedures can be varied and cover compliance, reliability of financial information, internal controls or specific financial statement items.
  - Requires auditors to be independent of KCERA



# Roles in Process

- **Governance**

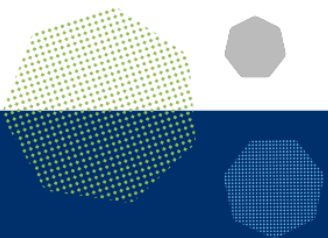
- Approval of procedures and acceptance of results
- 'Specified user' of report when results are obtained

- **Management**

- Responsible for internal risk assessment utilized for selection of audits to performed by UHY
- Responsible for developing procedures for intended purpose of report

- **UHY**

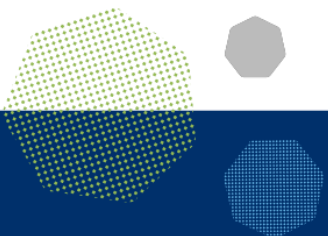
- May assist management in drafting of procedures (clarity, etc.)
- Must maintain independence throughout engagement period
- Responsible for performance of procedures and drafting of results of testing



# Initial Audit Plan and Estimated Timeline

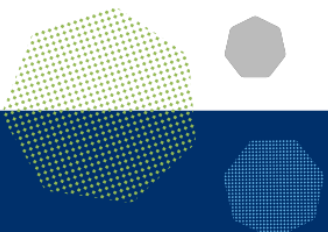
- Initial Plan

- Management performed an internal risk assessment to identify areas of focus for these engagements
- Utilizing the results of its risk assessment, management will draft a set of procedures to be performed as part of the first group of audits
- Initial areas of interest for which procedures will be devised are:
  - Timeliness and accuracy of data and contributions at the Plan sponsors
  - Plan sponsors' use of board-approved salary schedules and KCERA board-approved contribution rates
  - Accuracy and completeness of membership data and individual status
- To assist in execution of testing the procedures, Plan sponsors will be requested to provide an outline of its internal control procedures related to data necessary to KCERA's operations



# Initial Audit Plan and Estimated Timeline

Key Milestones	Dates
Presentation of Initial Plan	January 2024
Obtain IC Questionnaires from Plan sponsors	January/February 2024
Management to draft procedures to be performed; UHY to provide separate engagement letter	January/February 2024
Performance of AUP (testing)	February/March 2024
Issuance of first AUP report	March/April 2024








**Jason Ostroski, CPA**  
Principal  
jostroski@uhy-us.com  
410-423-4839

**Tim Rawal, CPA**  
Senior Manager  
trawal@uhy-us.com  
651-238-1941



**Date:** January 18, 2024

**To:** Trustees, Finance Committee

**From:** Matthew Henry, Chief Operations Officer 

**Subject:** **The Proposed 2023/2024 Compliance and Internal Audit Program**

### **Executive Summary**

The inaugural Compliance and Internal Audit Program (audit plan) is before your committee today for review and discussion. Staff utilized a risk-based approach to determine the priorities for the internal audit activities. The proposed audit plan was developed by management after completing an internal risk assessment. Based on the risk assessment results, management identified audits for discussion and approval.

The audit plan being presented today includes the following key objectives:

- Plan sponsors are sending data and contribution timely.
- Plan sponsors have effective internal controls over retirement enrollments.
- Use of KCERA Board approved contribution rates.
- Plan sponsor board approved salary schedules.

On April 25<sup>th</sup>, 2023, management recommended UHY, LLP to the Finance Committee to assist in starting the audit and compliance function here at KCERA. UHY will carry out agreed upon procedures that are identified through management's risk assessment and audit plan. The following presentation documents the approach taken in designing the audit plan and focuses of each audit identified in the initial risk assessment. The risk assessment primarily covered areas of member services and other key operational components.

Therefore, it is recommended that your Committee approved the audit plan.



KERN COUNTY  
EMPLOYEES' RETIREMENT  
ASSOCIATION

## **Audit & Compliance Plan**

Presented by:

**Matthew Henry, CFE**

Chief Operations Officer



01



Risk  
Assessment

02



Audit Plan

# Risk Assessment

Risk assessment procedures began with a questionnaire focused on member services and plan sponsors. The questionnaire tabulates risk by scoring key work activities for likelihood of occurring and impact if it were to happen.





# Risk Assessment

## Risk Factors



### Likelihood

- Complexity – What is the likelihood of something going wrong due to the complexity?
- Change – What is the likelihood of something going wrong due to a change in process?
- Controls – What is the likelihood for something going wrong due to lack of controls?



### Impact

- Materiality/Fiscal Impact – What is the dollar impact if something were to go wrong?
- Operational impact – How significant would KCERA be impacted if something were to go wrong?
- Reputation – How would KCERA's reputation be impacted if something were to go wrong?



# Risk Assessment



## Examples of Key Work Activities

- Member Enrollment Processing
- Member Active Payroll Posting
- Member Service Audits
- Domestic Relations Order Benefit Calculations
- Reciprocity Establishment and Processing
- Disability Claim Processing
- Member Retirement Counseling





# Interpreting the Results

The Key Work Activities with a high likelihood or impact rank indicates that these activities are by nature a high risk because of such factors as having complex or highly regulated transactions or could have a material impact on KCERA if a risk event were to occur. A high-risk rank does not mean that an activity is being managed ineffectively.



# Audit Plan Development



The plan reflects the results of a continuous risk assessment process gathered from various sources including, but not limited to:

Management questionnaires, discussions and interviews with staff, relevant or current events, and any prior audits or engagements.





# Audit Plan

## Initial Audits Identified

- Internal control questionnaire for plan sponsors
- Plan sponsors are sending data and contributions timely
- Plan sponsors are using board approved salary schedules
- Verification of use of KCERA Board approved contribution rates
- Verification of membership status for participating and non-participating employees





QUESTIONS?

