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## MEMORANDUM

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**DATE:** December 7, 2015  
**TO:** Members of the Audit Committee  
**FROM:** Brenda Shott, Assistant CEO, Finance & Internal Operations  
**SUBJECT:** External Auditor Interviews

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**Recommendation:**

Staff recommends selecting one of three finalists chosen to make an oral presentation at the December 15, 2015 Audit Committee meeting as the provider of OCERS' professional auditing services based on the firm's presentation, responsiveness to the Audit Committee's questions, and the written proposal submitted.

**Background:**

***Selection Process***

In October, a Request for Proposal (RFP) for professional auditing services was posted on OCERS' website and released to various affiliates in addition to directly soliciting six accounting firms. Three proposals were received and reviewed for responsiveness based on the following criteria:

Fee proposal	25%
Firm's experience, capabilities and references	20%
Quality and experience of assigned professional personnel	20%
Communication, understanding of scope and quality of proposals	20%
Schedule, estimation of hours and audit approach	15%

The review panel, consisting of three staff members and one external consultant, all of whom are certified public accountants, thoroughly reviewed all proposals and scored them on each criterion. Based on the total score from all panelists (see attached scoring summary), the firms were ranked and all three proposers were determined to be well qualified to provide OCERS with professional auditing services and selected for interviews:

- Brown Armstrong
- Macias Gini & O'Connell LLP (MGO)
- Mayer Hoffman McCann P.C.

Please note that all references to the finalists in this memorandum and the documents that follow are in alphabetical order based on firm names.

### ***Interview Process***

The interviews will take place at the beginning of the December 15, 2015 Audit Committee meeting. The planned procedure is for an approximately 30-minute interview with each firm as follows:

- Each candidate will be given ten minutes to make a general presentation about their firm
- The Audit Committee will ask the same 3 questions to each firm which will not be provided to the candidates ahead of time
- The Audit Committee may ask the candidate additional or follow-up questions
- Presentation to conclude with candidate summary

The interview process will be explained to the candidates prior to the date of the Audit Committee. The firms not being interviewed will be asked to leave the room during the other firm's interview.

### ***Summary of the RFP Responses***

Of the three firms that responded to the RFP, two have previously provided professional auditing services to OCERS. MGO has been OCERS financial auditor since July 2010 and completed the final contract year for auditing OCERS' annual financial statements with the approval of the audited financial statements for the year ended December 31, 2014 at the June 15, 2015 Board meeting. Prior to MGO, Brown Armstrong had served as OCERS financial auditor since 2005.

The summary on the following page was based solely on staff's review and understanding of the firms' RFP responses and was not reviewed by the firms prior to inclusion with the Audit Committee materials.

<b>Category</b>	<b>Brown Armstrong</b>	<b>Macias Gini &amp; O'Connell</b>	<b>Mayer Hoffman McCann P.C.</b>
Total Fees (5 years)	\$585,000	\$700,332	\$748,944
Year 1	\$117,000	*\$128,898	\$148,600
Year 2	\$117,000	**\$145,299	\$148,600
Year 3	\$117,000	***\$146,762	\$148,600
Year 4	\$117,000	\$138,401	\$151,572
Year 5	\$117,000	\$140,972	\$151,572
Year 6 (optional)	\$117,000	\$143,652	Not provided
Number of professionals and offices	73 employees 4 offices in California	250 professionals 8 offices in California	435 professionals 34 offices in U.S., including 6 in California
Retirement Plan Experience	Los Angeles County Employees' Retirement Association  Santa Barbara County Employees' Retirement System  San Joaquin County Employees' Retirement Association  San Mateo County Employees' Retirement Association  Sonoma County Employees' Retirement Association  OCERS  (See page 21 of proposal for full listing)	OCERS  CalPERS  Sacramento City Employees' Retirement System  San Diego County Retirement Association  San Diego City Employees Retirement System  San Bernardino County Retirement Association  CalSTRS	Bi-State Development Agency of Missouri-Illinois District Employees Pension Plans – 5 plans  City of Delano Employees' Pension Plan – 1 plan  County of Los Angeles Defined Contribution Plans – 4 plans  U.S. Airways 11K, Defined Benefit, Defined Contribution, and Health and Welfare Plans – 13 plans  Starwood Hotels & Resort Worldwide, Inc. Defined Contribution, Health and Welfare Trusts and Comingled Trusts – 6 plans  Southwest Airlines – Defined Contribution, and Health and Welfare Plans – 5 plans

\*Included consideration of V3 implementation

\*\*Includes consideration of OBEP valuation and implementation of GASB 72

\*\*\*Includes consideration of implementation of GASB 74

The full proposals provided by each firm in response to the RFP are attached to this memorandum.

**Conclusion:**

Three proposals were received in response to OCERS' RFP for professional auditing services. Based upon review of these proposals, all three firms were selected to make a presentation at the December 15, 2015 Audit Committee. Upon conclusion of the presentations and interviews with the prospective firms by the Audit Committee, staff recommends that a finalist be chosen as the provider of OCERS' professional auditing services and begin the process of contract negotiations for a five-year term, with an additional one year option, to commence with the audit of the December 31, 2015 financial statements.

**Submitted by:**



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Brenda Shott  
Assistant CEO, Finance & Internal Operations

Evaluator: \_\_\_\_\_

	Max. Points Available	Evaluator				MGO	Evaluator				MHM	Evaluator				Brown	
		1	2	3	4 Total	1	2	3	4 Total	1	2	3	4 Total	1	2	3	4 Total
<b>Firm's Experience, Capabilities and References</b>	<b>20</b>																
Firms's Experience	Understands our business and our industry through an appropriate level of industry experience in the audit of pension plans and the business risks associated with our industry.	7	7	8	7	29	5	5	4	4	18	6	7	6	6	25	
Capabilities	Ability to access specialized technical resources during the audit, whether assigning additional resources or access to experts. How would the firm answer a technical question that cannot be handled solely by the engagment team.	7	7	6	7	27	5	5	5	5	20	6	7	3	7	23	
References and Independence	Did the firm provide references of three audit clients similar in size and requirements?	6	6	5	6	23	5	4	3	5	17	6	6	5	6	23	
<b>Quality and Experience of Assigned Professional Personnel</b>	<b>20</b>																
Staff Qualifications	Does the proposed staff have required professional education? Are the appropriate levels of staff proposed?	10	10	10	10	40	9	7	10	10	36	9	9	10	10	38	
Staff Experience	Does the proposed staff have pension plan experience and/or governmental auditing experience?	10	10	10	10	40	9	7	5	7	28	8	10	8	9	35	
<b>Schedule, Estimation of Hours and Audit Approach</b>	<b>15</b>																
Schedule and Estimation of Hours	Do the proposed number of hours appear reasonable based on knowledge of hours required during prior years audits? Has the firm assigned sufficient resources to meet the proposed schedule?	8	7.5	8	8	31.5	7	4	8	6	25	6	4	5	6	21	
Audit Approach	Does the audit approach recommended within the proposal seem reasonable based on the proposed hours? Does the firm identify areas of risk?	6	7.5	7	7	27.5	5	4	5	6	20	5	4	4	6	19	
<b>Communication, Understanding of Scope and Quality of Proposal</b>	<b>20</b>																
Communication	Has the firm identified any potential areas of concern in the audit proposals? If so, has the firm described its approach to resolving these issues?	6	6	7	7	26	5	4	4	6	19	5	5	3	6	19	
Understanding of Scope	Does the proposal demonstrate that the firm has an understanding of the scope of the audit?	7	7	7	7	28	5	4	5	6	20	5	5	4	6	20	
Quality of Proposal	Does the address all proposal requirements in Section 7-- General Proposal Submission Requirement and Section 8-- Detail Proposal Requirements?	6	6	6	6	24	6	6	4	5	21	6	5	4	6	21	
<b>Fee Proposal</b>	<b>25</b>																
Fee Proposal	Lowest bid will receive 25 points. The other bids will receive a prorata share of the 25 points. For example if lowest bid is \$100,000 and next lowest bid is \$120,000. The next lowest bid will receive 21 points ( $100,000/120,000 * 25$ ). Based on the 5-year term.	21	21	21	21	84	20	20	20	20	80	25	25	25	25	100	
	TOTAL	100	94	95	95	96	380	81	70	73	80	304	87	87	77	93	344

**Proposal to Orange County Employees Retirement System  
Presented by Brown Armstrong Accountancy Corporation**

**BROWN ARMSTRONG**  
Certified Public Accountants

**Technical Proposal**

**Proposal to Perform  
Professional Auditing Services**

**Orange County Employees  
Retirement System**

**November 16, 2015**

**Andrew J. Paulden, CPA/Principal**

**T: (661) 324-4971**

**E: apaulden@bacpas.com**

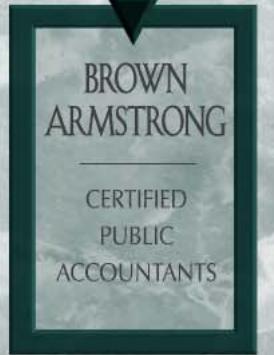
**4200 Truxtun Ave., Suite 300  
Bakersfield, CA 93309**

# BROWN ARMSTRONG

## Certified Public Accountants

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(MAIN OFFICE)**

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STOCKTON, CA 95207  
TEL 209.451.4833

REGISTERED with the Public Company  
Accounting Oversight Board and  
MEMBER of the American Institute of  
Certified Public Accountants.

# BROWN ARMSTRONG

*Certified Public Accountants*

## ***A. Letter of Transmittal***

November 16, 2015

Orange County Employees Retirement System  
Attention: Brenda Vazquez, Secretary II  
2223 E. Wellington Avenue, Suite 100  
Santa Ana, CA 92701

Dear Ms. Vazquez:

Brown Armstrong Accountancy Corporation is pleased to respond to your request for proposal to perform financial auditing services and to submit our qualifications to perform professional audit services to the Orange County Employees Retirement System for the years ending December 31, 2015, 2016, 2017, 2018, and 2019, with an option to extend for the year ended December 31, 2020.

We fully understand the work to be performed and are committed to performing the work within your stated time period.

Brown Armstrong is one of the largest regional accounting firms in California. Our mission is simple, we set out "to exceed expectations and provide opportunities" for our clients. Our seventy-three (73) employees in our four (4) offices lead us in achieving this mission by working with our clients to be proactive in implementing new accounting pronouncements efficiently and timely, and continually improving client financial reports. This was proven last year when we took the lead assisting our clients in implementing GASB Statements No. 67 and 68. We have audited numerous agencies similar to yours for more than four decades. We are experts in governmental accounting and auditing and have assisted numerous clients in receiving the Certificate of Achievement for Excellence in Financial Reporting.

I will be the engagement partner and primary liaison responsible for all services to Orange County Employees Retirement System (OCERS), and I am authorized to contractually bind the Firm. I can be contacted at: 4200 Truxtun Avenue, Suite 300, Bakersfield, California 93309, Tel (661) 324-4971, Fax (661) 324-4997 or e-mail: [apaulden@bacpas.com](mailto:apaulden@bacpas.com).

Please call me if I can clarify or expand on any item contained in this proposal. This proposal is a firm and irrevocable offer for one hundred twenty (120) business days. We appreciate the opportunity to provide you with the outstanding service you expect.

Sincerely,

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

By: Andrew J. Paulden, CPA  
Principal

# BROWN ARMSTRONG

## Certified Public Accountants

### **B. Firm Qualifications**

#### **Profile of Firm**

Our firm had its roots in the late 1960's when founders Peter C. Brown and Burton H. Armstrong began their public accounting careers with Big Eight international accounting firms. Brown formed a local accounting firm in 1974 and was joined in 1985 by Armstrong to form a premier regional public accounting firm. Andrew Paulden joined the firm in 1985 and is the partner in charge of all 1937 Act clients. Now, with 73 highly skilled employees, Brown Armstrong continues its growth by offering auditing, tax, accounting, consulting, and assurance services to governmental entities, nonprofits, corporations, partnerships and individuals.

Our governmental audit staff is made up of forty-three (43) professionals who are experts in their field. We have crafted expertise in auditing the public sector since the birth of the company. We offer unmatched customer service, reliability, and quality that you can't find in other accounting firms. Through tireless planning, relationship building, and knowledge of the realm, we are dedicated to serving our clients and exceeding their needs and expectations. We are a C Corporation with four (4) offices located throughout the state of California. Our main office is located in Bakersfield, California. We have additional offices in Fresno, Pasadena, and Stockton, California to better serve our client's needs. All of the work performed on this engagement will be from our Bakersfield and Pasadena offices.

The firm now employs 73 people as follows:

<b>Personnel</b>	<b>Total</b>	<b>Government*</b>
Shareholders (Partners)	11	8
Managers	14	7
Seniors	6	6
Staff Accountants	21	21
Technicians and Other Support	<u>21</u>	<u>1</u>
 Total	<u><u>73</u></u>	<u><u>43</u></u>

\* Indicates employees involved in providing services to local governments.

All staff assigned to this engagement will be employed on a full-time basis.

We are not proposing as a joint venture or consortium.

#### External Quality Control Reviews

As part of our commitment to quality control, our firm is a member of the Center for Public Firms Auditors Section (Center) of the American Institute of Certified Public Accountants (AICPA). We have completed several External Quality Control reviews under the AICPA's guidance, all of which included one or more governmental audits. Exhibit I of this proposal contains a copy of our most recent report. As indicated in that report, our Firm received a peer review rating of "pass," which is the highest rating available.

## **GENERAL REQUIREMENTS**

### Desk or Field Reviews and Disciplinary Actions

In the normal course of business, our firm has been subjected to several field reviews during the past three years. Additionally, all of our reports are subjected to annual desk reviews by federal and state cognizant agencies. All of our reports for the past three years were accepted by these agencies. We have no disciplinary action taken or pending against the Firm during the past three years with state regulatory bodies or professional organizations.

### **Technical Resources and Industry Group Participation**

Our Firm will use the following resources to provide us with the access necessary to obtain prompt responses to inquiries arising from technical or procedural questions developed in the course of the engagement:

1. California State Controller, Division of Audits
2. State Association of County Retirement Systems (Associate Member)
3. California Association of Public Retirement Systems (Sponsoring Member)
4. Cal Society of CPA's, Governmental Accounting & Auditing Committee (Members)
5. Government Finance Officers Association (Members)
6. American Institute of Certified Public Accountants
7. Government Accounting Standards Board (GASB)
8. Other 1937 Act Clients

We are proud that an alumni of our firm, Jialan Su, is now a project manager at the GASB. Jialan has been a great resource for responding to technical accounting issues.

Mr. Paulden is actively involved in a number of professional organizations such as the American Institute of Certified Public Accountants, the California Society of Certified Public Accountants, the State Association of County Retirement Systems, and the California Association of Public Retirement Systems.

### **License to Practice in California**

Our firm and the engagement partner are properly licensed to practice in the State of California, and are in good standing with all licensing agencies.

### **Governmental Accounting Experience**

Our firm has extensive California Governmental experience, having performed financial statement audits for four decades. We currently audit retirement systems, counties, cities, and numerous other local governments. Exhibit II of this proposal presents a summary of our recent governmental experience.

## **C. Staff Qualifications and Experience**

When you choose Brown Armstrong for your auditing services, you aren't just choosing an accountant; you're choosing a resource, a friend, and an expert. You don't need to dread your upcoming audit, the audit team assigned to your engagement will not only meet the deadlines you have in place, but will work with you to keep you current on the latest regulations. Our professional auditing staff is experienced in working with clients in all levels of the public sector, but the team we have chosen for you have specific skills that make them the best fit for your needs.

## GENERAL REQUIREMENTS

### Engagement Staff

From our governmental audit staff of forty-three (43), we have assembled an audit team consisting of members who are extremely qualified to perform your audit. All team members noted as a CPA are registered or licensed to practice as a certified public accountant in California.

Below is an organizational chart of the proposed engagement team structure.

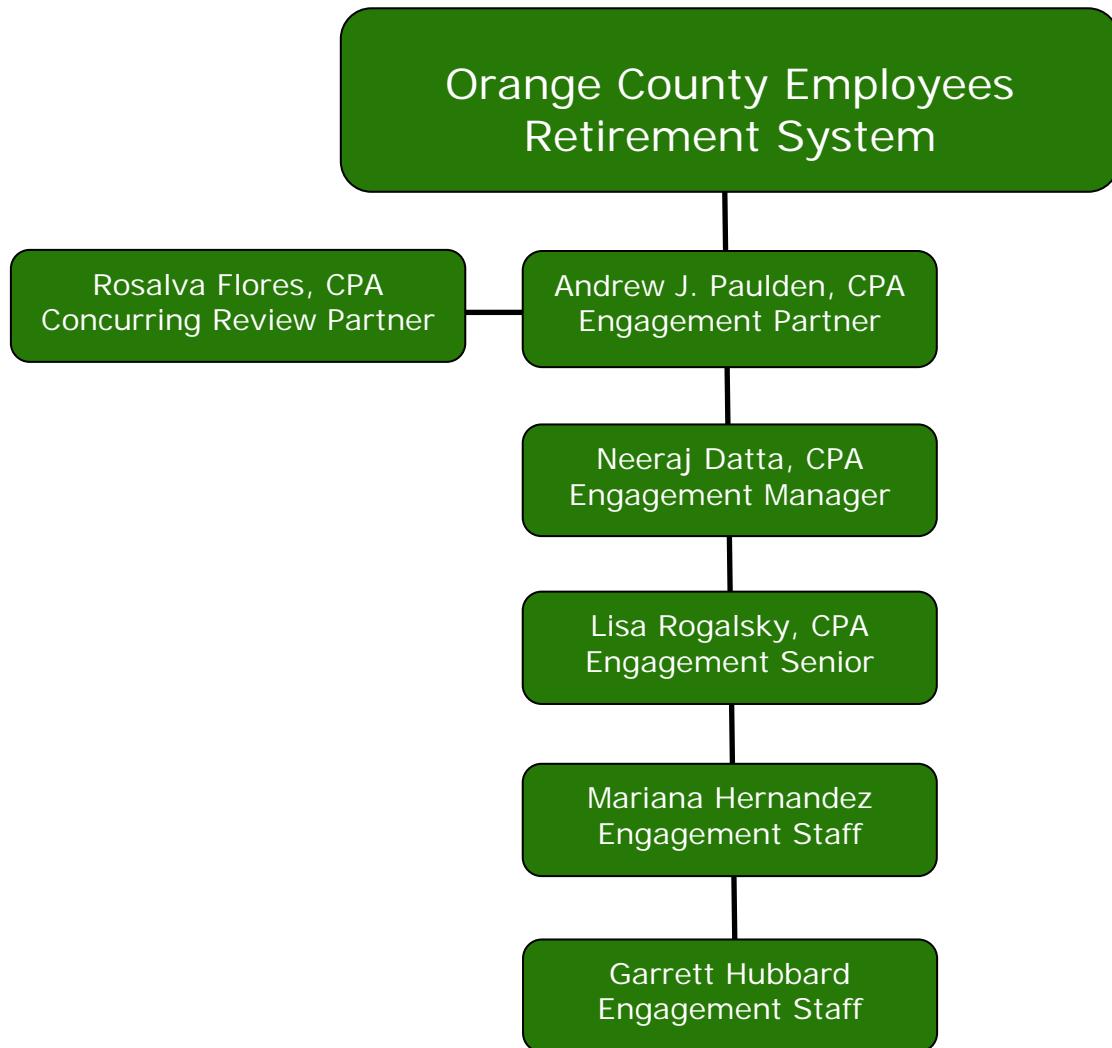


Exhibit III of this proposal contains detailed resumes of each team member which details their qualifications, experience, and training, including relevant continuing professional education.

### Rotation Policy

Our firm policy is to provide staff consistency on engagements; however; having a large public sector focus allows us to provide options for partner and staff rotation if requested.

## GENERAL REQUIREMENTS

### Governmental Auditing Experience

**Engagement Partner:** Mr. Paulden has over thirty years of governmental and commercial auditing experience. Mr. Paulden actively participates in various professional organizations such as the California Society of Municipal Finance Officers, Government Finance Officers' Association, State Association of County Retirement Systems, and California Society of Certified Public Accountants. He will continually supervise the work of the remainder of the engagement staff and will be charged with the responsibility of keeping OCERS informed as to the status of the audit.

Mr. Paulden enjoys working one-on-one with his clients and will be a "hands-on" partner with OCERS.

**Engagement Concurring Review Partner:** Ms. Flores has over sixteen years of governmental auditing experience. Ms. Flores will be the concurring audit partner. As part of our quality control procedures, a concurring partner must review every engagement.

**Engagement Manager:** Mr. Datta will manage the engagement. He has over ten years of governmental auditing experience. He will be on-site for the duration of the engagement to supervise staff and review completed phases of the engagement.

**Engagement Senior:** Ms. Rogalsky will be the engagement senior. She has more than four years of governmental auditing experience and will supervise staff while in the field.

**Engagement Staff:** Ms. Hernandez and Mr. Hubbard will be the engagement staff. Ms. Hernandez has over three years of experience with governmental auditing and Mr. Hubbard as over one year of experience. Both have audited numerous governmental entities.

Please note that we have assembled an extremely well-qualified team. Exhibit III of this proposal contains resumes for these team members detailing their government auditing experience, information on relevant pension auditing, continuing education, and membership in professional organizations relevant to the performance of your audit.

### Continuing Professional Education

Each year Brown Armstrong organizes four days of CPE seminars in Bakersfield (two, two-day sessions covering 32 hours of CPE) for its professional staff and clients' personnel. One of the two-day CPE seminars is in the middle of January. It covers accounting and auditing updates relating to for-profit businesses (FASB, PCAOB, and SAS). Another two-day CPE seminar covering primarily governmental accounting and auditing updates (GASB, Yellowbook, Single Audit) is typically in May. The course material covers emerging issues, current pronouncements, auditing standards, risk alerts, information systems, reporting issues, and other topics of interest which concern auditing and accounting with an emphasis on governmental issues. Course materials are prepared by professional lecturers, our partners, managers, and seniors based on their own experience, research, and learning. Last year's attendance included Brown Armstrong professionals and nearly 60 clients and their accounting staff. All staff assigned to governmental entities meets the CPE requirements in accordance with *Government Auditing Standards*.

In-house training is provided to our junior professional staff annually and covers a range of topics from taxation to information systems. These sessions are usually conducted over several days; both in spring and late fall. Frequently our clients request that members of their accounting divisions be included in our in-house training, and we are happy to help our client's staff achieve their continuing professional education requirements.

## GENERAL REQUIREMENTS

### Staff Quality

The quality of the staff over the term of the agreement will be assured because of our aggressive in-house governmental audit and accounting continuing education classes, and our unexcelled on the job training.

### Staff Continuity

Our firm policy is to maintain staffing continuity for all audits. Engagement partners, managers, other supervisory staff, and specialists may be changed if those personnel leave the firm, are promoted, or are assigned to another office. These personnel may also change for other reasons with the express prior written permission of OCERS. However, in either case, OCERS retains the right to approve or reject the replacement staff. Any staffing replacements during the term of the agreement will have the same or better qualifications and experience of the staff that they replace.

## GENERAL REQUIREMENTS

### D. Proposer Guarantees and Warranties

#### **Proposer Guarantees and Warranties**

#### **PROPOSER GUARANTEES**

The proposer certifies it can and will provide and make available, as a minimum, all services set forth in Section 3, Nature of Services Required.

Signature of Official: 

Name (typed): Andrew J. Paulden

Title: Principal

Firm: Brown Armstrong Accountancy Corporation

Date: November 16, 2015

#### **PROPOSER WARRANTIES**

1. Proposer warrants that it is willing and able to comply with State of California laws with respect to foreign (non-state of California) corporations.
2. Proposer warrants that it is willing and able to obtain an errors and omissions insurance policy providing a prudent amount of coverage for the willful or negligent acts, or omissions of any officers, employees or agents thereof.
3. Proposer warrants that it will not delegate or subcontract its responsibilities under an agreement without the prior written permission of OCERS.
4. Proposer warrants that all information provided by it in connection with this proposal is true and accurate.

Signature of Official: 

Name (typed): Andrew J. Paulden

Firm: Brown Armstrong Accountancy Corporation

Date: November 16, 2015

## TECHNICAL REQUIREMENTS

### E. Standard Professional Services Contract

A copy of our standard professional services contract can be found at Appendix IV.

### F. References

Following are the most significant engagements performed by our Bakersfield office that are similar to the engagement for OCERS described in your request for proposal. Any of the following may be contacted as a reference.

1. Los Angeles County Employees' Retirement Association  
Date/Scope: June 30, 2003 to present; Audit  
Engagement Partner: Andrew J. Paulden, CPA  
Total Hours: 1,200  
Contact: Richard Bendall, Internal Auditor  
Address: 300 North Lake Avenue, Suite 840, Pasadena, CA 91101-4199  
Phone: (626) 564-6000  
E-mail: [rbendall@lacera.com](mailto:rbendall@lacera.com)
2. San Joaquin County Employees' Retirement Association  
Date/Scope: December 31, 2006 to present; Audit  
Engagement Partner: Andrew J. Paulden, CPA  
Total Hours: 600  
Contact: Annette St. Urbain, Chief Executive Officer  
Address: 6 South El Dorado Street, Suite 400, Stockton, CA 95202-2804  
Phone: (209) 468-2163  
E-mail: [annettes@sjcera.org](mailto:annettes@sjcera.org)
3. San Mateo County Employees' Retirement Association  
Date/Scope: June 30, 2003 to present; Audit  
Engagement Partner: Andrew J. Paulden, CPA  
Total Hours: 600  
Contact: Scott Hood, Chief Executive Officer  
Address: 100 Marine Parkway, Suite 125, Redwood Shores, CA 94065-5208  
Phone: (650) 363-4882  
E-mail: [shood@samcera.org](mailto:shood@samcera.org)
4. Santa Barbara County Employees' Retirement System  
Date/Scope: June 30, 2012 to present; Audit  
Engagement Partner: Andrew J. Paulden, CPA  
Total Hours: 600  
Contact: Gregory E. Levin, Chief Executive Officer  
Address: 3916 State Street, Suite 210, Santa Barbara, CA 93105  
Phone: (805) 568-2940  
E-mail: [glevin@sbcers.org](mailto:glevin@sbcers.org)

## G. Specific Audit Approach

This section sets forth our understanding of the audit engagement requirements, and a risk-based work plan, including an explanation of the methodology to be followed to perform the engagement. All parts of the audit will focus on OCERS' strategic goals, core processes and business objectives.

WORK PLAN		
Audit Tasks	Staff	(#) (Hours)
<b>1. Interim Audit Procedures</b>	Partner	(1) ( 28)
	Manager	(1) ( 56)
	Senior	(1) ( 76)
<u>Planning and Administration</u>	Staff	(2) (120)
<ul style="list-style-type: none"> <li>• Review and evaluate OCERS' accounting and financial reporting. Prepare an overall memo of recommendations, potential issues, and suggestions for improvements.</li> <li>• Entrance Conference with Management to discuss audit approach, timing, assistance, and other issues.</li> <li>• Prepare audit programs, audit budget and staffing schedule.</li> <li>• Provide information request and critical date schedules to OCERS management.</li> </ul>		
<u>Internal Control Structure Understanding and Testing</u>		
<ul style="list-style-type: none"> <li>• Obtain and document understanding of the following key internal control systems through walk-throughs, interviews of staff, and review of supporting documentation:           <ul style="list-style-type: none"> <li>- Investing</li> <li>- Benefits</li> <li>- Participant Data</li> <li>- Actuarial Information</li> <li>- Government Code and other Laws and Regulations Compliance</li> <li>- Data Processing</li> <li>- Other key internal control systems, as necessary</li> </ul> </li> <li>• Test and evaluate effectiveness of the internal control system. Random samples of transactions in key operating systems. Non-statistical sampling. Minimum sample size is forty. Samples selected will be reviewed for adequacy of support and approvals, and degree of adherence to and compliance with OCERS policies.</li> <li>• Provide OCERS' management with a memo concerning management letter points and issues identified, if any.</li> </ul>		
<u>Laws and Regulations</u>		
<ul style="list-style-type: none"> <li>• Review and evaluate OCERS procedures for maintaining compliance with Government Code and County Employees' Retirement Act of 1937 (CERL).</li> <li>• Test a sample of transactions and/or information to determine OCERS' compliance with applicable Government Code and CERL provisions.</li> </ul>		

## TECHNICAL REQUIREMENTS

### Other Audit Tasks

- Review minutes of Board meetings and other key committees.
- Coordinate with and assist OCERS staff in the preparation of all appropriate confirmation requests including:
  - Custodian
  - Managers
  - Active and retired participants (Random, non-statistical sample. Minimum sample size is 60 for each classification.)
  - Actuary
  - Legal
  - Others, as required
- Hold progress conference with OCERS staff.

### **2. Year End Audit Procedures**

<b>Partner</b>	<b>(1) ( 42)</b>
<b>Manager</b>	<b>(1) ( 84)</b>
<b>Senior</b>	<b>(1) (114)</b>
<b>Staff</b>	<b>(2) (180)</b>

#### Field Work

- Entrance conference with OCERS staff.
- Receive and review draft financials.
- Reconcile custodian and manager confirmations to OCERS general ledger.
- Review actuarial study and actuary confirmation for accuracy.
- Review and perform additional procedures on active and retired participants confirmations, and evaluate adequacy of responses.
- Perform analytical testing on revenues and expenditures and evaluate material variances.
- Perform a search for unrecorded liabilities by reviewing disbursements subsequent to December 31, testing terms of contractual obligations, and interviewing staff.
- Perform review of subsequent events through discussions with management and review of all minutes of the Board and key committees.
- Provide proposed adjustments and financial statement revisions to OCERS.
- Review final reports for adherence to GAAP and compliance with GFOA Certification requirements.
- Other procedures as necessary.
- Hold exit conference with OCERS staff.

#### Draft Reports

- Issue drafts of all required reports.
- Issue draft management letter.
- Present and discuss above reports with OCERS' management.

#### Final Reports

- Issue final reports.
- Present all reports to Audit Committee.
- Present all reports to the Board of Retirement.

## **TECHNICAL REQUIREMENTS**

Summary of Professional Audit Hours for the above mentioned audit tasks:

<u>Personnel</u>	<u>Hours</u>
Partner	70
Manager	140
Senior	190
Staff	<u>300</u>
<b>Total Hours</b>	<b><u>700</u></b>

## **H. Identification of Anticipated Potential Audit Problems**

We do not anticipate any problems in the audit. However, in the event any problems are identified, we will resolve them as follows:

- Discussion with audit team.
- Consultation and discussion with appropriate OCERS' personnel.
- Consultation and discussion with liaison(s).
- Resolution with appropriate OCERS' personnel.

## **I. Report Format**

Sample formats for the required reports are included in Exhibit V.

## FEES AND HOUR RATES

### J. Total All-Inclusive Maximum Price

Brown Armstrong's flat fee proposal contains all pricing information relative to performing the audit engagement as described in the RFP, including the initial five (5) year contract and the additional one-year period. The total all-inclusive maximum price contains all direct and indirect costs, including out-of pocket expenses, and is as follows:

	2015	2016	2017	2018	2019	2020 (Option)
Financial Statement Audit	\$ 102,000	\$ 102,000	\$ 102,000	\$ 102,000	\$ 102,000	\$ 102,000
GASB 68 Audit	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000
Total All-Inclusive Maximum Price	\$ 117,000	\$ 117,000	\$ 117,000	\$ 117,000	\$ 117,000	\$ 117,000

Brown Armstrong certifies that the person signing this proposal, Andrew J. Pauden, is entitled to represent the firm, empowered to submit this bid, and authorized to enter into a contract with OCERS.

## FEES AND HOUR RATES

### K. Hourly Rates of Staff

**Schedule of Professional Fees and Expenses  
For the Audit of OCERS  
December 31, 2015**

**Financial Statement Audit**

Staff	Hours	Standard Hourly Rates	Quoted Hourly Rates	Total
Partners	70	\$ 250	\$ 200	\$ 14,000
Managers	140	195	155	21,700
Supervisory Staff	190	170	135	25,650
Staff	300	120	95	28,500
Other (clerical)	-	-	-	-
<b>Subtotal</b>	<b>700</b>			<b>89,850</b>

**GASB 68 Audit**

Staff	Hours	Standard Hourly Rates	Quoted Hourly Rates	Total
Partners	12	\$ 250	\$ 200	\$ 2,400
Managers	24	195	155	3,720
Supervisory Staff	32	170	135	4,320
Staff	48	120	95	4,560
Other (clerical)		-	-	-
<b>Subtotal</b>	<b>116</b>			<b>15,000</b>

**Out-of-Pocket Expenses:**

Meals and Lodging	12,150
Transportation	-
Other (specify)	-
<b>Subtotal Out-of-Pocket Expenses</b>	<b>12,150</b>
<b>Total All-Inclusive Maximum Price for Audit</b>	<b>\$ 117,000</b>

## FEES AND HOUR RATES

### Schedule of Professional Fees and Expenses For the Audit of OCERS December 31, 2016

#### Financial Statement Audit

Staff	Hours	Standard Hourly Rates	Quoted Hourly Rates	Total
Partners	70	\$ 250	\$ 200	\$ 14,000
Managers	140	195	155	21,700
Supervisory Staff	190	170	135	25,650
Staff	300	120	95	28,500
Other (clerical)	-	-	-	-
Subtotal	700			89,850

#### GASB 68 Audit

Staff	Hours	Standard Hourly Rates	Quoted Hourly Rates	Total
Partners	12	\$ 250	\$ 200	\$ 2,400
Managers	24	195	155	3,720
Supervisory Staff	32	170	135	4,320
Staff	48	120	95	4,560
Other (clerical)		-	-	-
Subtotal	116			15,000

#### Out-of-Pocket Expenses:

Meals and Lodging	12,150
Transportation	-
Other (specify)	-
Subtotal Out-of-Pocket Expenses	12,150
Total All-Inclusive Maximum Price for Audit	\$ 117,000

**FEES AND HOUR RATES**

**Schedule of Professional Fees and Expenses  
For the Audit of OCERS  
December 31, 2017**

**Financial Statement Audit**

Staff	Hours	Standard Hourly Rates	Quoted Hourly Rates	Total
Partners	70	\$ 250	\$ 200	\$ 14,000
Managers	140	195	155	21,700
Supervisory Staff	190	170	135	25,650
Staff	300	120	95	28,500
Other (clerical)	-	-	-	-
<b>Subtotal</b>	<b>700</b>			<b>89,850</b>

**GASB 68 Audit**

Staff	Hours	Standard Hourly Rates	Quoted Hourly Rates	Total
Partners	12	\$ 250	\$ 200	\$ 2,400
Managers	24	195	155	3,720
Supervisory Staff	32	170	135	4,320
Staff	48	120	95	4,560
Other (clerical)		-	-	-
<b>Subtotal</b>	<b>116</b>			<b>15,000</b>

## Out-of-Pocket Expenses:

Meals and Lodging	12,150
Transportation	-
Other (specify)	-
<b>Subtotal Out-of-Pocket Expenses</b>	<b>12,150</b>
<b>Total All-Inclusive Maximum Price for Audit</b>	<b>\$ 117,000</b>

## FEES AND HOUR RATES

### Schedule of Professional Fees and Expenses For the Audit of OCERS December 31, 2018

#### Financial Statement Audit

Staff	Hours	Standard Hourly Rates	Quoted Hourly Rates	Total
Partners	70	\$ 250	\$ 200	\$ 14,000
Managers	140	195	155	21,700
Supervisory Staff	190	170	135	25,650
Staff	300	120	95	28,500
Other (clerical)	-	-	-	-
Subtotal	700			89,850

#### GASB 68 Audit

Staff	Hours	Standard Hourly Rates	Quoted Hourly Rates	Total
Partners	12	\$ 250	\$ 200	\$ 2,400
Managers	24	195	155	3,720
Supervisory Staff	32	170	135	4,320
Staff	48	120	95	4,560
Other (clerical)		-	-	-
Subtotal	116			15,000

#### Out-of-Pocket Expenses:

Meals and Lodging	12,150
Transportation	-
Other (specify)	-
Subtotal Out-of-Pocket Expenses	12,150
Total All-Inclusive Maximum Price for Audit	\$ 117,000

## FEES AND HOUR RATES

### Schedule of Professional Fees and Expenses For the Audit of OCERS December 31, 2019

#### Financial Statement Audit

Staff	Hours	Standard Hourly Rates	Quoted Hourly Rates	Total
Partners	70	\$ 250	\$ 200	\$ 14,000
Managers	140	195	155	21,700
Supervisory Staff	190	170	135	25,650
Staff	300	120	95	28,500
Other (clerical)	-	-	-	-
Subtotal	700			89,850

#### GASB 68 Audit

Staff	Hours	Standard Hourly Rates	Quoted Hourly Rates	Total
Partners	12	\$ 250	\$ 200	\$ 2,400
Managers	24	195	155	3,720
Supervisory Staff	32	170	135	4,320
Staff	48	120	95	4,560
Other (clerical)		-	-	-
Subtotal	116			15,000

#### Out-of-Pocket Expenses:

Meals and Lodging	12,150
Transportation	-
Other (specify)	-
Subtotal Out-of-Pocket Expenses	12,150
Total All-Inclusive Maximum Price for Audit	\$ 117,000

## FEES AND HOUR RATES

**Schedule of Professional Fees and Expenses  
For the Audit of OCERS  
December 31, 2020  
(Option Year)**

**Financial Statement Audit**

Staff	Hours	Standard Hourly Rates	Quoted Hourly Rates	Total
Partners	70	\$ 250	\$ 200	\$ 14,000
Managers	140	195	155	21,700
Supervisory Staff	190	170	135	25,650
Staff	300	120	95	28,500
Other (clerical)	-	-	-	-
<b>Subtotal</b>	<b>700</b>			<b>89,850</b>

**GASB 68 Audit**

Staff	Hours	Standard Hourly Rates	Quoted Hourly Rates	Total
Partners	12	\$ 250	\$ 200	\$ 2,400
Managers	24	195	155	3,720
Supervisory Staff	32	170	135	4,320
Staff	48	120	95	4,560
Other (clerical)	-	-	-	-
<b>Subtotal</b>	<b>116</b>			<b>15,000</b>

Out-of-Pocket Expenses:

Meals and Lodging	12,150
Transportation	-
Other (specify)	-
<b>Subtotal Out-of-Pocket Expenses</b>	<b>12,150</b>
<b>Total All-Inclusive Maximum Price for Audit</b>	<b>\$ 117,000</b>

**L. Out-of-Pocket Costs**

All estimated out-of-pocket expenses to be reimbursed are presented in the Schedules of Professional Fees and Expenses included in this proposal.

# Exhibit I

## External Quality Control Review Report



### System Review Report

To the Shareholders of  
 Brown Armstrong Accountancy Corporation  
 and the National Peer Review Committee of the AICPA

We have reviewed the system of quality control for the accounting and auditing practice of Brown Armstrong Accountancy Corporation (the firm) applicable to non SEC issuers in effect for the year ended October 31, 2012. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based upon our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of Brown Armstrong Accountancy Corporation applicable to non SEC issuers in effect for the year ended October 31, 2012, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Brown Armstrong Accountancy Corporation has received a peer review rating of *pass*.

*Weaver & Tidwell, LLP*  
 WEAVER AND TIDWELL, L.L.P.

Dallas, Texas  
 February 8, 2013

AN INDEPENDENT  
 MEMBER OF BAKER TILLY  
 INTERNATIONAL

WEAVER AND TIDWELL LLP  
 CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS  
[WWW.WEAVERLLP.COM](http://WWW.WEAVERLLP.COM)

DALLAS  
 12221 MERIT DRIVE, SUITE 1400, DALLAS, TX 75251  
 P.(972) 490 1970 F.(972) 702 8321

# Exhibit II

## Summary of Recent Governmental Experience

CITIES	GOVERNMENTAL RETIREMENT PLANS	SPECIAL DISTRICTS
City of Bakersfield City of Burlingame City of Delano City of Fresno City of Lindsay City of Madera City of Modesto City of Pasadena City of Santa Barbara City of Seaside City of Tehachapi City of Tulare City of Visalia	Contra Costa County Employees' Retirement Association Fresno City Employees' Retirement System Fresno County Employees' Retirement Association Imperial County Employees' Retirement System Kern County Employees' Retirement Association Los Angeles Fire and Police Pension System Los Angeles City Employees' Retirement System Los Angeles County Employees' Retirement Association Marin County Employees' Retirement Association Merced County Employees' Retirement Association Orange County Employees' Retirement System San Diego City Employees' Retirement System San Diego County Employees' Retirement Association San Joaquin County Employees' Retirement Association San Mateo County Employees' Retirement Association Sonoma County Employees' Retirement Association Tulare County Employees' Retirement Association Ventura County Employees' Retirement Association San Francisco Bay Area Rapid Transit District Money Purchase Plan and Deferred Compensation Plan North Bakersfield Rec.& Park Dist. Pension Plan San Luis Obispo County Employees' Pension Trust Pasadena Fire & Police Retirement System Santa Barbara County Employees' Retirement System Los Angeles Fire and Police Pension System	Port Hueneme Water Agency North Bakersfield Recreation And Park District Shafter Recreation & Park District Bear Mountain Recreation & Park District San Joaquin Valley Air Pollution Control District Westside Cemetery District Westside Mosquito and Control Vector District Minter Field Airport District Fresno Metropolitan Flood Control District Belridge Water Storage District Mojave Public Utility District Bear Valley Springs Homeowners' Association Rose Bowl Operating Company Pasadena Center Operating Company Santa Clara Valley Water District Kern Tulare Water District Fresno Irrigation District Pixley Public Utility District
TRANSIT	RECREATION & PARK DISTRICTS	COUNTIES
Antelope Valley Transit Authority Central Contra Costa Transit Authority Fresno Council of Government Kern Council of Government Fresno County Transportation Authority Golden Empire Transit District North County Transit District Riverside Transit Agency Santa Cruz Metropolitan Transit District San Joaquin Regional Transit District Napa County Transportation and Planning Agency	North Bakersfield Recreation & Park District Shafter Recreation & Park District Bear Mountain Recreation & Park District  <b>COLLEGE DISTRICTS</b> College of the Sequoias Community College District Kern Community College District San Luis Obispo Community College District Victor Valley Community College District	County of Fresno County of Kern County of Kings County of Merced County of Monterey County of Riverside County of Santa Barbara County of San Joaquin County of Stanislaus County of Tulare
NON-PROFITS	HEALTH CARE	
Goodwill of California Boy Scouts of America Kern County Library Foundation Kern County Bar Association Center for the Blind & Visually Impaired Tranquil Waters Guidance Center Ebony Counseling Center Economic Development Corporation – Fresno County Women at Work Pasadena Chamber of Commerce Pasadena Community Access Corporation Granada Court Homeowner's Association	Kern Health Systems Kern Medical Center Heritage Provider Network Community Health Plan Heritage California Medical Group Heritage New York Medical Group Family Hospice Care Riverside County Regional Medical Center San Joaquin County General Hospital Stanislaus County Health Services Agency - Clinic and Ancillary Tehachapi Public Healthcare District	

# **Exhibit III**

## **Resumes of Audit Team Members**

**Andrew J. Paulden, CPA**  
Engagement Partner

**Rosalva Flores, CPA**  
Concurring Review Partner

**Neeraj Datta, CPA**  
Engagement Manager

**Lisa Rogalsky**  
Engagement Senior

**Mariana Hernandez**  
Engagement Staff

**Garrett Hubbard**  
Engagement Staff

## **Andy J. Paulden, CPA Engagement Partner**



Andy Paulden is a principal with over 29 years experience in governmental accounting. He has grown within the firm serving a diverse client base. His expertise ranges from special districts and retirement systems to municipal entities and nonprofit organizations. Andy enjoys working "hands-on" with his clients and will never be too far away from audit procedures.

Andy has always ensured that we have the highest level of audit, tax, and consulting services for all of his clients. He is actively involved in a number of professional organizations such as the American Institute of Certified Public Accountants, the California Society of Certified Public Accountants, and the Governmental Auditing and Accounting State Committee as a member at large.

### **Education**

California State University,  
Chico, 1985

Bachelor of Science Degree in  
Business Administration with a  
Concentration in Accounting

### **Roles and Responsibilities on OCERS Engagement**

- Overall responsibility for the audit and delivery of client service.
- Approves the overall audit risk assessment and audit procedures.
- Communicates with executive management, and members of OCERS, regarding audit planning, fieldwork and reporting.
- Available throughout the year to ensure proactive issue identification and service delivery.

### **Clients Served**

\*Only selected clients are listed

#### **Retirement Systems**

Los Angeles County Employees' Retirement Association  
Ventura County Employees' Retirement Association  
San Mateo County Employees' Retirement Association  
Tulare County Employees' Retirement Association  
Marin County Employees' Retirement Association  
Fresno City Employees' Retirement System  
San Diego County Employees' Retirement Association  
Los Angeles City Employees' Retirement System  
Contra Costa County Employees' Retirement Association  
Sonoma County Employees' Retirement Association  
Fresno County Employees' Retirement Association  
Santa Barbara County Employees' Retirement System  
Los Angeles Fire and Police Pension Plan  
Imperial County Employees' Retirement System  
San Francisco Bay Area Rapid Transit Money Purchase Plan  
San Francisco Bay Area Rapid Transit Deferred Compensation Plan  
San Luis Obispo County Employees' Pension Trust

## Rosalva Flores, CPA Concurring Review Partner



Rosalva Flores is a principal with over 16 years experience in governmental accounting. Rosalva has grown within the firm serving a diverse client base. Her expertise ranges from retirement systems and special district entities to municipal governments and nonprofit organizations.

Not only does she have experience in the audit process, but she will be an integral member of the team when it comes to keeping standards up to date. Rosalva is actively involved in a number of professional organizations such as the American Institute of Certified Public Accountants, the California Society of Certified Public Accountants, and the California Municipal Finance Officers Association.

### **Education**

California State University,  
Bakersfield, 1998

Bachelor of Science Degree in  
Business Administration,  
Concentration in Accounting

### **Roles and Responsibilities on OCERS Engagement**

- Responsible for assisting the Engagement Partner in performing the audit risk assessment and design audit procedures.
- Assists in audit documentation review in significant areas.
- Reviews financial statements to ensure they are in conformance with GAAP and GFOA requirements.
- Advises the audit team regarding technical matters and provides concurring approval of financial statements and audit reports.

### **Clients Served**

\*Only selected clients are listed

#### **Retirement Systems**

Contra Costa County Employees' Retirement Association

Fresno City Employees' Retirement System

Kern County Employees' Retirement Association

Kern Schools Federal Credit Union Pension Plan

Los Angeles City Employees' Retirement System

San Joaquin County Employees' Retirement Association

Sonoma County Employees' Retirement Association

Stanislaus County Employees' Retirement Association

Tulare County Employees' Retirement Association

Ventura County Employees' Retirement Association

#### **Special Districts**

Belridge Water Storage District

Casitas Municipal Water District

Kern Tulare Water District

Minter Field Airport District

Mojave Public Utility District

Rosamond Community Services District

## **Neeraj Datta, CPA Engagement Manager**



Neeraj is the lead engagement manager of the project. He has more than 10 years of governmental auditing experience. His primary business focus is governmental entities audit and accounting. Her audit specialties include cities, investment funds, and special districts.

Neeraj will be highly involved in the field work and a face to face presence for Brown Armstrong. He and the senior accountant will be easily accessible for the City at all times. His ability to manage an audit has become invaluable for Brown Armstrong. He is actively involved in a number of professional organizations such as the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants.

### **Roles and Responsibilities on OCERS Engagement**

- On site at OCERS' office during the performance of all audit procedures.
- Reports to the Partners regarding audit and technical matters.
- Assists in the coordination of planning, fieldwork, and reporting matters.
- Reviews audit documentation for all audit areas.
- Manages all staff assigned to the OCERS engagement.
- Is in constant communication with executive management and members of OCERS regarding audit planning, fieldwork, and reporting.

### **Clients Served**

\*Only selected clients are listed

#### **Retirement Associations**

Ventura County Employees' Retirement Association  
San Mateo County Employees' Retirement Association  
Tulare County Employees' Retirement Association  
Marin County Employees' Retirement Association  
Contra Costa County Employees' Retirement Association  
Santa Barbara County Employees' Retirement System  
Imperial County Employees' Retirement System

#### **Cities**

City of Pasadena  
City of Tulare

#### **Special Districts**

Port Hueneme Water Agency  
Rose Bowl Operating Company  
Pasadena Center Operating Company

#### **Non-profits**

California State University, Sonoma Campus  
Pasadena Community Access Corporation

### **Education**

Delhi University, India  
Bachelor of Commerce Honors  
Degree

## Lisa Rogalsky Engagement Senior



### **Education**

California State University, Fresno,  
2011

Bachelor of Science Degree in  
Business Administration,  
Accountancy

### **Clients Served**

\*Only selected clients are listed

### **Retirement Systems**

City of Fresno Retirement Systems  
Contra Costa County Employees'  
Retirement Association  
Fresno County Employees' Retirement  
Association  
Los Angeles City Employees' Retirement  
System  
San Joaquin County Employees'  
Retirement Association  
San Luis Obispo County Pension Trust  
San Mateo County Employees'  
Retirement Association  
Sonoma County Employees' Retirement  
Association  
Southwest Contractors, Inc. 401 (k)  
Tulare County Employees' Retirement  
Association

### **Counties**

County of Kern  
County of Riverside

Lisa is an audit senior with over four years of governmental auditing experience. She has shown excellent performance in leading fieldwork, compiling and preparing financial statements, performing tests and analytical reviews, as well as creating strong working relationships with clients. She has executed audits in the past with little issues and is great at maximizing efficiency while performing audit work.

### **Roles and Responsibilities on OCERS Engagement**

- Leading fieldwork audit team
- Reviews, analyzes, and documents client internal controls
- Completes complex audit procedures
- Researches and performs tests and analytical reviews on issues under direction of the Engagement Manager
- Reviews financial statements and workpapers before sending the drafts to Engagement Manager and partners for further review.

**Mariana Hernandez  
Engagement Staff****Education**

Cal Poly San Luis Obispo, 2011

Bachelor of Science Degree in  
Business Administration,  
Concentration in Accounting

**Clients Served**

\*Only selected clients are listed

**Retirement Systems**

Ventura County Employees' Retirement  
Association  
Sonoma County Employees' Retirement  
Association  
Los Angeles City Employees' Retirement  
System  
Contra Costa County Employees'  
Retirement Association  
San Mateo County Employees'  
Retirement Association  
Santa Barbara County Employees'  
Retirement System

**Cities**

City of Burlingame  
City of Seaside

**Counties**

County of Stanislaus  
County of Santa Barbara  
County of San Joaquin  
County of Santa Cruz

**Garrett Hubbard  
Engagement Staff****Education**

California State University,  
Bakersfield, 2014

Bachelor of Science in Business  
Administration, Emphasis in  
Accounting

**Clients Served**

\*Only selected clients are listed

**Retirement Systems**

Los Angeles City Employees' Retirement  
System  
Santa Barbara County Employees'  
Retirement System  
Tulare County Employees' Retirement  
Association  
Fresno County Employees' Retirement  
Association  
Marin County Employees' Retirement  
Association  
Los Angeles Fire and Police Pension Plans  
San Luis Obispo County Pension Trust  
San Joaquin County Employees'  
Retirement Association

**Counties**

County of Riverside  
County of Kern

**Transit Districts**

Santa Cruz Metropolitan Transit District

# Continuing Professional Education

\*Relevant Education Listed

## **Andrew J. Paulden, CPA**

GASB 67 and 71: New Pension Standards, 2015  
U.S. GAAP and IFRS Divergence, 2015  
Governmental Accounting and Auditing, 2015  
Audit Update and Pension Accounting/Financial Reporting, 2015  
Pension Accounting and Financial Reporting: New Standards, 2014  
Not-for-Profit Organizations: Accounting and Auditing Principles, 2014  
The Pension Challenge: Critical Issues to Implementing the New GASB Pension Standards, 2013  
New AU-C 600/ISA 600 Group Audit Standards, 2013  
Governmental Accounting and Auditing Conference, 2013

## **Rosalva Flores, CPA**

Accountancy Laws, Ethics, Taxes and Financial Reporting Review - Ethics, 2015  
Accountancy Laws, Ethics, Taxes and Financial Reporting: Regulatory Review, 2015  
GASB Statement No. 68 Audit and Accounting, 2015  
Employee Benefit Plans annual Audit Conference, 2015  
GASB Update/Fiduciary Responsibilities of Public Officials, 2015  
Accounting and Auditing Update, 2015  
Fraud and the CPA Profession, 2015  
Audit Quality Discussion Part II: Avoiding Common Audit Deficiencies in Yellow Book and Single Audits, 2015  
GAAP Update, 2014  
Accounting and Auditing Update, 2014  
Internal Control: Your Number One Defense Against Errors and Fraud, 2013  
The Pension Challenge: Critical Issues to Implementing the New GASB Pension Standards, 2013  
New AU-C 600/ISA 600 Group Audit Standards, 2013  
Audit Update, Single Audit and Ethics, 2013  
GASB Update, 2013

## **Neeraj Datta, CPA**

GASB Update/Fiduciary Responsibilities of Public Officials, 2015  
Audit Update and Pension Accounting/Financial Reporting, 2015  
Accounting and Auditing Update, 2015  
Fraud and the CPA Profession, 2015  
EBPAQC Designated Partner 2015 Audit Planning, 2015  
Audit Quality Discussion Part I: Avoiding Common Audit Deficiencies in SLG Financial Audits, 2015  
GAAP Update, 2014  
California Frauds, Scams and Scandals, 2014  
Accounting and Auditing Update, 2014  
The New Data Collection Form and Important Clearinghouse System Changes, 2013  
The Pension Challenge: Critical Issues to Implementing the New GASB Pension Standards, 2013  
New AU-C 600/ISA 600 Group Audit Standards, 2013  
Financial Reporting Framework for SMEs, 2013  
The 2013 OMB Compliance Supplement and Proposed Single Audit, 2013  
Not-for-Profit Organizations Conference, 2013  
Audit Update, Single Audit and Ethics, 2013  
GASB Update, 2013  
Advanced Accounting and Auditing Training, 2013  
PCAOB Training, 2013

## **Lisa Rogalsky, CPA**

GASB Update/Fiduciary Responsibilities of Public Officials, 2015  
Audit Update and Pension Accounting/Financial Reporting, 2015  
Accounting and Auditing Update, 2015  
Fraud and the CPA Profession, 2015  
GAAP Update, 2014  
California Frauds, Scams and Scandals, 2014  
Accounting and Auditing Update, 2014  
Audit Update, Single Audit and Ethics, 2013  
GASB Update, 2013  
Advanced Accounting and Auditing Training, 2013  
PCAOB Training, 2013

## EXHIBITS

### Mariana Hernandez

GASB Update/Fiduciary Responsibilities of Public Officials, 2015  
Audit Update and Pension Accounting/Financial Reporting, 2015  
Accounting and Auditing Update, 2015  
Fraud and the CPA Profession, 2015  
GAAP Update, 2014  
California Frauds, Scams and Scandals, 2014  
Accounting and Auditing Update, 2014  
Audit Update, Single Audit and Ethics, 2013  
GASB Update, 2013  
Advanced Accounting and Auditing Training, 2013  
PCAOB Training, 2013

### Garrett Hubbard

GASB Update/Fiduciary Responsibilities of Public Officials, 2015  
Audit Update and Pension Accounting/Financial Reporting, 2015  
Accounting and Auditing Update, 2015  
Fraud and the CPA Profession, 2015  
Spidell's 2014/15 Federal and California Tax Update Seminar, 2014  
GAAP Update, 2014

# **Exhibit IV**

## **Sample Contract**

### **AUDITING SERVICES AGREEMENT**

#### **BROWN ARMSTRONG ACCOUNTANCY CORPORATION**

This Agreement is made and entered into as of \_\_\_\_\_, 20XX, in \_\_\_\_\_, California, by and between the \_\_\_\_\_ RETIREMENT ASSOCIATION (hereinafter referred to as "CERA") and BROWN ARMSTRONG ACCOUNTANCY CORPORATION (hereinafter referred to as "AUDITOR").

WHEREAS, the CERA was created pursuant to the County Employees Retirement Law of 1937 (hereinafter referred to as the "'37 ACT") and is administered by the Board of Trustees (hereinafter referred to as the "BOARD");

WHEREAS, pursuant to Government Code section 31593, the Board, "*The retirement board shall conduct an audit of the retirement system at least once every 12 months and report upon its financial condition. The retirement board may retain the services of a certified public accountant to perform the annual audit. That audit shall be performed in accordance with generally accepted auditing standards. . . . The audit report shall address the financial condition of the retirement system, internal auditing controls, and compliance with applicable laws and regulations.*";

WHEREAS, AUDITOR is qualified to be a "certified public accountant" and is qualified to perform an audit in accordance with the GAAS as set forth by the AICPA, and with the "Minimum Audit Requirements and Reporting Guidelines for California Public Retirement Systems," issued by the California State Controller; and

WHEREAS, the BOARD has determined that it would be in the best interest of the CERA if AUDITOR were to be retained to provide the accounting services set forth herein below and, accordingly, has voted to approve this Agreement;

NOW, THEREFORE, in consideration of the above-stated premises, the terms, covenants and conditions hereinafter set forth, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto do hereby agree as follows:

1. **DESCRIPTION OF AUDITING SERVICES.** The BOARD hereby delegates to AUDITOR the duties and AUDITOR hereby accepts and assumes responsibility to provide the auditing services described in Exhibit "A", (hereto, "Auditing Services"), and described in Exhibit "B", the BOARD's RFP and the AUDITOR's written responses to the RFP.

2. **PAYMENTS FOR AUDITING SERVICES.** In consideration of the services rendered in accordance will all terms and conditions and specifications set forth herein and set forth in Exhibits " ", BOARD shall make payment for auditing services to AUDITOR as set forth in Exhibit " ", (hereto, "Fee Schedule"). Said payments shall be made within thirty (30) days after full completion of the services by the AUDITOR. Any amendments to the fee schedule, Exhibit "C", agreed to by both parties shall be set forth in a written modification to the Agreement. The fees set forth in this section shall be the sole compensation owed by or to any person for AUDITOR's services under this Agreement.

3. **RELATIONSHIP OF THE PARTIES.** It is understood that this is an Agreement by and between the BOARD and an Independent Contractor and it is not intended to, and shall not be construed to, create the relationship of agent, servant, employee, partnership, joint venture or association, or any other relationship whatsoever other than that of Independent Contractor.

## EXHIBITS

4. **NON-ASSIGNABILITY.** Contractor shall not assign this Agreement or any portion thereof to a third party without the prior written consent of the BOARD, and any attempted assignment without such prior written consent in violation of this section automatically shall terminate this Agreement.

5. **TERM AND TERMINATION.** This Agreement shall be in effect for a term of three years, starting \_\_\_\_\_, 20XX. Either party may terminate this Agreement at any time for any reason by providing thirty (30) days written notice. Termination to be effective on the date specified in the notice. In the event of termination under this paragraph, AUDITOR shall be paid for all work provided to the date of termination.

6. **INDEMNIFICATION.** The AUDITOR agrees to indemnify, defend and hold harmless the \_\_\_\_\_CERA, its BOARD, trustees, officers and employees from any and all claims, actions, losses, damages, and/or liability arising from AUDITOR's negligent acts, errors or omissions and for any costs or expenses incurred by \_\_\_\_\_CERA on account of any claim thereof, except where such indemnification is prohibited by law.

7. **INSURANCE.** Without in anyway affecting the indemnity herein provided and in addition thereto, the AUDITOR shall secure and maintain throughout the Agreement the following types of insurance with limits as shown:

A. **Workers' Compensation** - A program of Workers' Compensation Insurance or a State Approved Self-Insurance Program in an amount and form to meet all applicable requirements of the Labor Code of the State of California, including Employer's Liability with \$250,000 limits, covering all persons providing services on behalf of AUDITOR and all risks to such persons under this Agreement.

B. **Comprehensive General And Automobile Liability Insurance** - This coverage to include contractual coverage and automobile liability coverage for owned, hired and non-owned vehicles. The policy shall have combined single limits for bodily injury and property damage of not less than five hundred thousand dollars (\$500,000.00)

C. **Professional Errors and Omissions Liability Insurance** - AUDITOR will secure an insurance policy for Professional Errors and Omissions insurance with coverage of at least one million dollars (\$1,000,000.00) per claim or occurrence and shall cover all AUDITOR's officers, owners, and employees.

8. **ADDITIONAL NAMED INSURED.** All policies, except for the Workers' Compensation policy shall contain additional endorsements naming \_\_\_\_\_CERA and its officers, employees, agents, and volunteers as additional named insureds with respect to liabilities arising out of the performance of services hereunder.

9. **WAIVER OF SUBROGATION RIGHTS.** Except for Professional Errors and Omissions Liability, AUDITOR shall require the carriers of the above required coverages to waive all rights of subrogation against \_\_\_\_\_CERA, its BOARD, trustees, officers, and employees.

10. **POLICIES PRIMARY AND NON-CONTRIBUTORY.** All policies required above are to be primary and non-contributory with any insurance or self insurance programs carried or administered by \_\_\_\_\_CERA.

11. **PROOF OF COVERAGE.** AUDITOR shall immediately furnish certificates of Insurance to the Supervising Accountant III evidencing the Insurance coverage, including endorsements, above required prior to the commencement of performance of services hereunder, which certificates shall provide that such insurance shall not be terminated or expire without thirty (30) days written notice to \_\_\_\_\_CERA, and AUDITOR shall maintain such insurance from the time AUDITOR commences performance of services hereunder until the completion of such services. Within sixty (60) days of the commencement of this Agreement the AUDITOR shall furnish certified copies of the policies and all endorsements.

12. **FORCE MAJEURE.**

## EXHIBITS

A. In the event AUDTOR is unable to comply with any provision of this Agreement due to causes beyond their control relating to acts of God, acts of war, civil disorders, or other similar acts, AUDITOR shall not be held liable to CERA for such failure to comply.

B. In the event CERA is unable to comply with any provision of this Agreement due to causes beyond their control relating to acts of God, acts of war, civil disorders, or other similar acts, CERA shall not be held liable to AUDITOR for such failure to comply.

13. NOTICES AND REPORTS. Any notices and reports required or desired to be services by either party upon the other shall be addressed to respective parties as set forth below:

CERA:

Administrator  
\_\_\_\_\_  
(Address)  
(Phone)

County Employees' Retirement Association

AUDITOR: ANDREW J. PAULDEN  
Principal  
Brown Armstrong  
Accountancy Corporation  
4200 Truxtun Ave. Suite 300  
Bakersfield, CA 93309  
(661) 324-4971  
FAX (661) 324-4997

14. GOVERNING LAW AND VENUE. This Agreement will be construed in accordance with and governed by the laws of the State of California. Should any party file a lawsuit over any matter arising out of this Agreement, said lawsuit will be filed and prosecuted in the County of \_\_\_\_\_, State of California, and all parties hereto hereby consent to such venue and the personal jurisdiction of all courts sitting within such local.

15. ASSURANCE OF COMPLIANCE WITH CIVIL RIGHTS LAWS. AUDITOR hereby agrees and represents that it is an equal opportunity employer and has adopted policies to implement the purpose and provisions of the Civil Rights Act of 1964, 42 USC § 2000(e) et seq. to assure that no person is denied employment on the basis of race, creed, color, sex or national origin in connection with its performance of this Agreement.

16. AFFIRMATIVE ACTION. The AUDITOR shall take affirmative action to ensure that qualified applicants are employed, and that employees are treated fairly during employment, without regard to their race, color, religion, sex, handicap, ancestry or national origin. Such action shall include, but not be limited to, the following: employment, upgrading, demotion or transfer; recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training, including apprenticeship.

17. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original.

18. CONFIDENTIALITY. Except as provided by applicable law, or by order of a court or regulatory authority, AUDITOR shall maintain the confidentiality of all its records with respect to this Agreement, including, but not limited to, billing and the CERA records. AUDITOR shall maintain the same confidentiality of these records as it does for other accounts.

19. VALIDITY. The invalidity in whole or in part of any provision of this Agreement shall not void or affect the validity of any other provision

## EXHIBITS

20. WAIVER. No waiver of a breach of any provision of this Agreement by either party shall constitute a waiver of any other breach of said provision or any other provision of this Agreement. No waiver will be enforceable unless it is a written agreement executed by the party granting the waiver, making specific reference to this Agreement and reciting the parties' intention that it constitute a waiver. Failure of either party to enforce at any time, or from time to time, any provisions of this Agreement shall not be construed as a waiver thereof. The remedies herein reserved shall be cumulative and additional to any other remedies in law or equity.

21. ATTORNEY FEES. In the event of any litigation regarding this Agreement, the prevailing party as determined by the appropriate court shall be entitled to recover reasonable attorney's fees.

22. CHANGES AND AMENDMENTS. The CERA and AUDITOR reserve the right to amend any such terms and conditions of this Agreement, which may become necessary. Any revisions hereto will be accomplished by written agreement executed by both of the parties making specific reference to this Agreement and reciting the parties' intention that it constitute an amendment.

23. MERGER. This Agreement, and the Exhibits attached hereto, will constitute the complete and exclusive statement of understanding between the parties, superseding all previous agreements, written or oral, and all other previous communication between the parties relating to the subject matter of this Agreement.

24. SOLE PROPERTY OF THE BOARD. Any system, documents or reports developed, produced or provided under this Agreement shall become the sole property of the BOARD.

25. AGREEMENT RENEWAL. This Agreement may be renewed for additional time periods provided that both parties sign renewal documents and the total payments during the renewal terms are specified.

EXECUTED AND AGREED TO by the parties as of the date first written above by their duly authorized representatives:

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

COUNTY  
EMPLOYEES' RETIREMENT ASSOCIATION

By: \_\_\_\_\_  
AUTHORIZED REPRESENTATIVE

By: \_\_\_\_\_  
Its: ADMINISTRATOR

CONTRACT WITHOUT THE EXHIBITS  
APPROVED AS TO FORM:

County Counsel

By: \_\_\_\_\_  
Deputy County Counsel

# **Exhibit V**

## **Sample Reports**

### **INDEPENDENT AUDITOR'S REPORT**

To the Internal Governance Committee and Board of Retirement of  
Orange County Employees Retirement System  
Santa Ana, California

#### **Report on the Financial Statements**

We have audited the accompanying Statement of Fiduciary Net Position of the Orange County Employees Retirement System (OCERS), as of December 31, 2015, the Statement of Changes in Fiduciary Net Position for the fiscal year then ended, and the related notes to the financial statements, which collectively comprise OCERS' basic financial statements as listed in the table of contents. The financial statements of OCERS as of and for the fiscal year ended December 31, 2014, were audited by other auditors, whose report dated \_\_\_\_\_, 2015, expressed an unqualified opinion.

#### **Management's Responsibility for the Financial Statements**

OCERS' management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the OCERS' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the OCERS' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## EXHIBITS

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of OCERS as of December 31, 2015, and their changes in fiduciary net position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

### Emphasis of Matter

As discussed in Note \_\_\_\_ to the basic financial statements, the total pension liability of the participating employers as of December 31, 2015, was \$\_\_\_\_\_. The fiduciary net position as a percentage of the total liability as of December 31, 2015, was \_\_\_\_%. The actuarial valuations are very sensitive to the underlying actuarial assumptions, including a discount rate of \_\_\_\_%, which represents the long-term expected rate of return. Our opinion is not modified with respect to this matter.

Additionally, as discussed in Note \_\_\_\_ to the financial statements, the financial statements include investments that are not listed on national exchanges or for which quoted market prices are not available. These investments include direct lending, private real estate, and investments in infrastructure. Such investments totaled \$\_\_\_\_\_ (\_\_\_\_% of total assets) at December 31, 2015. Where a publicly listed price is not available, the management of OCERS uses alternative sources of information including audited financial statements, unaudited interim reports, independent appraisals, and similar evidence to determine the fair value of the investments. Our opinion is not modified with respect to these matters.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise OCERS' basic financial statements. The other supplementary information and the introductory, investment, actuarial, and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **EXHIBITS**

The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated \_\_\_\_\_, 2016, on our consideration of OCERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OCERS' internal control over financial reporting and compliance.

### **Report on Summarized Comparative Information**

The financial statements of OCERS as of December 31, 2014, were audited by other auditors. Those auditors expressed an unmodified opinion on those audited financial statements in their report dated \_\_\_\_\_, 2015. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended December 31, 2014, is consistent in all material respects, with the audited financial statements from which it has been derived.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

Bakersfield, California  
\_\_\_\_\_, 2016

**REQUIRED COMMUNICATION TO THE MEMBERS  
OF THE INTERNAL GOVERNANCE COMMITTEE AND BOARD OF RETIREMENT  
IN ACCORDANCE WITH PROFESSIONAL STANDARDS**

To the Internal Governance Committee and Board of Retirement of  
Orange County Employees Retirement System  
Santa Ana, California

We have audited the financial statements of the Orange County Employees Retirement System (OCERS) for the year ended December 31, 2015, and have issued our report dated \_\_\_\_\_, 2016. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated \_\_\_\_\_, 2016. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Findings**

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by OCERS are described in Note \_\_, Summary of Significant Accounting Policies, to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015. We noted no transactions entered into by OCERS during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting OCERS' financial statements was the fair value of investments:

- Management's estimate of the fair value of investments was derived by various methods as detailed in Note \_\_, Summary of Significant Accounting Policies. We evaluated the key factors and assumptions used to develop the fair value of investments in determining that it is reasonable in relation to the financial statements taken as a whole.
- The contribution amounts and net pension liability which are based on the actuarially-presumed interest rate and assumptions. We evaluated the key factors and assumptions used to develop the contribution amount and net pension liability in determining that they are reasonable in relation to the financial statements taken as a whole.
- The disclosures for deposits and investments in Notes \_\_ and \_\_ to the financial statements, Summary of Significant Accounting Policies and Cash and Investments Disclosures, respectively, were derived from OCERS' investment policy. Management's estimate of the fair value of investments was derived by various methods as detailed in the notes.
- Additionally, the disclosures related to the funding policies, net pension liability, and actuarial methods and assumptions in Note \_\_, Plan Description and Note \_\_, Net Pension Liability of Participating Employers Disclosures were derived from actuarial valuations, which involved estimates of the value of reported amounts and probabilities about the occurrence of future events far into the future.

## EXHIBITS

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached schedule summarizes the misstatements detected as results of audit procedures that were corrected by management.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated \_\_\_\_\_, 2016.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to OCERS' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as OCERS' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### *Other Matters*

We applied certain limited procedures to the Schedule of Employers' Net Pension Liability, Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Employer Contributions, Schedule of Investment Returns, and Notes to the Required Supplementary Information, which are Required Supplementary Information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedule of Administrative Expenses, and Schedule of Management Fees and Other Investment Expenses, which accompany the financial statements but are not RSI. With respect to this other supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory, investment, actuarial, and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

## EXHIBITS

### Restricted on Use

This information is intended solely for the use of the Internal Governance Committee, Board of Retirement, and management of OCERS and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

Bakersfield, California  
\_\_\_\_\_, 2016

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Internal Governance Committee and Board of Retirement of  
Orange County Employees Retirement System  
Santa Ana, California

We have audited, in accordance with the 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, the financial statements of the Orange County Employees Retirement System (OCERS) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise OCERS' basic financial statements, and have issued our report thereon dated \_\_\_\_\_, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered OCERS' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OCERS' internal control. Accordingly, we do not express an opinion on the effectiveness of OCERS' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of OCERS' financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether OCERS' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management in a separate letter dated \_\_\_\_\_, 2016.

## EXHIBITS

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OCERS' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OCERS' internal control and compliance. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

Bakersfield, California  
\_\_\_\_\_, 2016

## EXHIBITS

### AGREED UPON CONDITIONS REPORT DESIGNED TO INCREASE EFFICIENCY, INTERNAL CONTROLS, AND/OR FINANCIAL REPORTING

To the Internal Governance Committee and Board of Retirement of  
Orange County Employees Retirement System  
Santa Ana, California

We have audited the financial statements of the Orange County Employees Retirement System (OCERS) for the year ended December 31, 2015, and have issued our report dated \_\_\_\_\_, 2016. In planning and performing our audit of the financial statements of OCERS, we considered its internal control structure over financial reporting (internal control) 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 OCERS' internal control. Accordingly, we do not express an opinion on the effectiveness of OCERS' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we considered to be material weaknesses.

However, during our audit we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. The recommendation that is listed in this report summarizes the condition and suggestion regarding the matter.

We will review the status of this condition during our next audit engagement. We have already discussed the condition and suggestions with various OCERS personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

#### Current Year Agreed Upon Conditions and Recommendations

#### Status of Prior Year Agreed Upon Conditions and Recommendations

\*\*\*\*\*

This report is intended solely for the information and use of the Board of Retirement and management of OCERS and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

Bakersfield, California  
\_\_\_\_\_, 2016

**BROWN ARMSTRONG**  
Certified Public Accountants

*Providing Auditing & Accounting  
Services for Over 40 Years*



A new breed  
of professional  
services firm

## PROPOSAL FOR PROFESSIONAL AUDITING SERVICES

# Experience. Expertise. Value.

ORANGE COUNTY EMPLOYEES'  
RETIREMENT SYSTEM

NOVEMBER 16, 2015





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SECTION 1

# General Requirements

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SECTION 1-A

# Letter of Transmittal

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of professional  
services firm

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Certified  
Public  
Accountants

Sacramento  
Walnut Creek  
Oakland  
Los Angeles  
Century City  
Newport Beach  
San Diego

November 16, 2015

Brenda Vazquez  
Secretary II  
2223 E. Wellington Ave. Suite 100  
Santa Ana, CA 92701

Dear Ms. Vazquez:

On behalf of MGO, we are pleased to present our proposal to provide auditing services to the Orange County Employees' Retirement System (OCERS) for the fiscal years ending December 31, 2015, 2016, 2017, 2018 and 2019 with an option for a one year extension for the fiscal year ending December 31, 2020.

OCERS has been a valued client of MGO's since 2010. Throughout our past professional relationship with OCERS, we have put forth the most qualified and responsive professionals to best address your service needs and technical issues. You have our commitment that MGO will continue to provide OCERS with the highest quality resources to perform all services and all deliverables as described in the Request for Proposals.

As you know our public agency practice not only includes the audit of the largest pension plan, the California Public Employees' Retirement System, but we also provide advisory services to the California State Teachers' Retirement System, the second largest public employees' retirement systems, respectively, in the United States. We also provide such services to eight of the ten largest cities and six of the ten largest counties in California. Furthermore, we serve as principal auditor to Oregon Public Employees Retirement System and 22 local government retirement systems throughout California. Finally, MGO also has a seat on the AICPA's expert panel for State and Local Governments, of which our first assigned task was to review and offer revisions to pension guidance provided to auditors in the AICPA's Audit and Accounting Guide (Guide) for State and Local Governments. OCERS will continue to benefit from our experience and resources at the local, state and national level to get timely resolution of accounting and financial reporting issues.

OCERS completed its implementation of new pension plan standard in 2014, GASB 67, and assisted its sponsors in implementing the companion standard GASB 68. The issues were complex and both OCERS, the actuaries and MGO as your auditors were faced with several challenges that were successfully overcome to provide timely information to the plan sponsors. As OCERS looks to the future and assesses the impact of the approaching standards of fair value accounting and reporting (GASB 72) and OPEB reporting related to OCFA (GASB 74), MGO is committed to assisting OCERS in navigating technical matters and providing clarification on the complex topics.

As partner, I am authorized to contractually obligate the firm, negotiate the contract on behalf of the firm, and may be contacted to clarify any components of the proposal on the pages that follow. If you have any questions, or if we can be of assistance to you in any way during the selection process, I can be reached at [lhurley@mgocpa.com](mailto:lhurley@mgocpa.com) or (949) 296-4340.

**Linda C. Hurley**  
Partner  
4675 MacArthur Court  
Suite 600  
Newport Beach, CA 92660

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SECTION 1-B

# Firm Qualifications

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A new breed  
of professional  
services firm

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# Firm Profile.

## CALIFORNIA CPAS DEDICATED TO GOVERNMENT AUDIT

Founded in 1987, MGO is a professional services firm with a staff of over 250 highly skilled professionals providing auditing, tax, outsourcing, and advisory services to governmental entities, nonprofits, corporations, partnerships, and individuals. We are a statewide Limited Liability Partnership (LLP) certified public accounting and consulting firm with 8 offices throughout California.

### **NEWPORT BEACH**

4675 MacArthur Court, Suite 600  
Newport Beach, CA 92660

### **LOS ANGELES - DOWNTOWN**

777 South Figueroa Street, Suite 2500  
Los Angeles, CA 90017

### **LOS ANGELES - CENTURY CITY**

2029 Century Park East, Suite 1500  
Los Angeles, CA 90067

### **SACRAMENTO (HQ)**

3000 S Street, Suite 300  
Sacramento, CA 95816



### **WALNUT CREEK**

2121 N. California Blvd. Suite 750  
Walnut Creek, CA 94596

### **OAKLAND**

505 14th Street, 5th Floor  
Oakland, CA 94612

### **SAN DIEGO - DOWNTOWN**

225 Broadway, Suite 1750  
San Diego, CA 92101

### **SAN DIEGO - DEL MAR**

12264 El Camino Real, Suite 402  
San Diego, CA 92130

MGO is proud to be on the Top 100 list of Inside Public Accounting and several other publications. But more importantly, we're at the top of one very relevant list: MGO is the #1 auditor of large government agencies in the State of California.

While there are certainly larger firms with thousands of CPAs serving dozens of industries around the globe, MGO invests in more full-time, year-round government audit experts in California than any other firm.

**Firm Participation with Professional Standard Setters.**

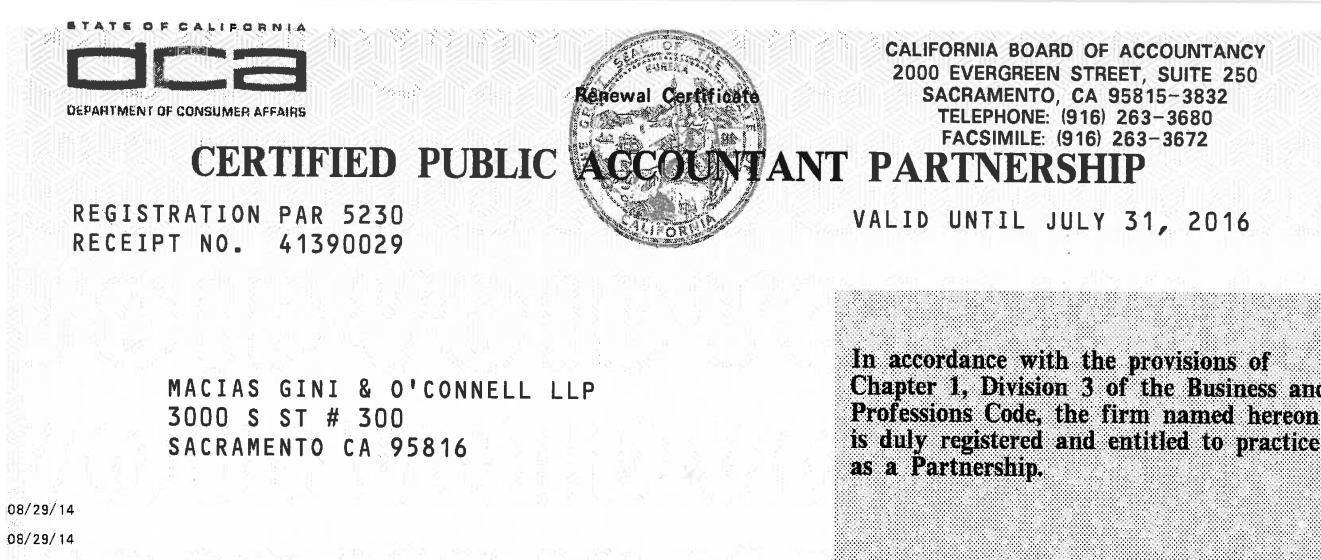
MGO is an active participant on the AICPA State and Local Government Expert Panel (EP). The EP is a fifteen person nationwide panel responsible for addressing practice and emerging issues in the public sector and serves as the profession's primary liaison to the GASB and regulators such as the U.S. Government Accountability Office and the U.S. Office of Management and Budget. Katherine Lai, MGO Technical Partner was appointed to the EP for a three-year term in January 2015 and was immediately assigned to review and offer revisions to pension guidance provided to auditors in the AICPA's Audit and Accounting Guide (Guide) for State and Local Governments. Prior participation includes Caroline Walsh, MGO's Chief Quality Officer, appointment from October 2006 through September 2009, who participated in the review of the 2008 and 2009 Guides for Statement Local Governments and *Government Auditing Standards* and Circular A-133; and Kevin O'Connell's, Managing Partner, appointment in 2003-2006.

- In 2011, Caroline Walsh chaired the EP task force for the GASB's Invitation to Comment on Pension Accounting and Financial Reporting and presented testimony to GASB on behalf of the AICPA. As a former member of the EP, she was invited to serve as an EP task force member to review and comment on the GASB's exposure draft, which codifies pre-November 30, 1989 accounting standards and the proposed standards for other postemployment benefits.
- MGO is a member of the AICPA Governmental Audit Quality Center (GAQC). The GAQC was established in 2004 and its primary purpose is to provide resources to promote high quality governmental audits. To demonstrate our commitment to quality auditing practices, MGO was one of the first firms in the U.S. to join the GAQC.
- In 2011, Caroline Walsh was appointed to the Executive Committee of the AICPA GAQC and completed services in the fall of 2014. In association with her role on the Executive Committee, she attended the bi-annual Single Audit Roundtable in Washington D.C., which is a joint meeting between the AICPA, OMB and Federal Agencies to discuss single audit issues, in particular the new OMB Uniform Grant Guidance.
- Prior to the creation of the EP, MGO Partners and Directors participated on the AICPA Government Accounting and Auditing Committee (GAAC), the predecessor group to the EP, which was responsible for developing the AICPA's Audit and Accounting Guide for State and Local Governments. The GAAC was a major influence in the development of generally accepted auditing standards and accounting principles of governments.
- In 2013, Katherine Lai and David Bullock, Partners, attended the Governmental Accounting Standards Board (GASB) Statement No. 34 Roundtable where they evaluated the financial reporting model for governments. The objective of the roundtable was to obtain views from users, preparers, and auditors of government financial statements on the most important aspects of the requirements of GASB 34 and related standards. MGO was one of only four CPA firms invited to attend representing California. In February 2015, GASB selected MGO to interview as part of its research project on the re-examination of the reporting model.

- In 2012, Caroline Walsh was appointed to GASB's GAAP Hierarchy Advisory Committee, which provides input to GASB on its GAAP Hierarchy Project. This project considered possible modifications to the GAAP hierarchy, as set forth in Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. It re-examined the hierarchy levels to assess whether the standards-setting process and the governmental financial reporting environment have sufficiently evolved since the establishment of the original hierarchy by the AICPA in 1992 to warrant reconsideration or reconfiguration of certain aspects of the structure. In June 2015, GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.
- In 2009, Caroline Walsh was appointed for a three-year term to the GASB Implementation Guide Advisory Committee to assist the GASB in developing the annual edition of the Comprehensive Implementation Guide related to the GASB's pronouncements. Caroline reviewed proposed new items and revisions to prior questions and answers and provided input to GASB project managers.
- David Bullock, partner, also served on the GASB Sales and Pledges task force developing GASB Statement No. 48 related to Securitizations.
- Kevin O'Connell also served on the GASB task force that developed guidance to implement GASB Statement Nos. 43 and 45 related to Other Postemployment Benefits (OPEB).
- Jim Godsey, partner, was chosen to participate in the GASB Pension Disclosure Task Force.
- Ernest Gini, Partner Emeritus, served on the GASB Advisory Committee on the publication of the User Guide to Local Government Financial Statements.

#### **Properly Licensed.**

MGO is a public accounting firm that provides audit and attest services. Please refer to our firm's license listed below. MGO and all assigned key professionals are properly licensed to practice in the State of California as Certified Public Accountants, and are in good standing with the California State Board of Accountancy. MGO meets all requirements imposed by federal, state, and local laws, rules, and regulations.



## RETIREMENT SYSTEMS

MGO HAS A LONGSTANDING RECORD OF SERVICE TO CALIFORNIA RETIREMENT SYSTEMS. OUR CAPABILITIES IN THIS AREA LED TO THE AWARD OF THE LARGEST EMPLOYEE RETIREMENT SYSTEM ENGAGEMENT IN THE COUNTRY - THE CALIFORNIA STATE PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CALPERS).

Over the years we have worked with Retirement Services to consistently produce award winning CAFRs, address a myriad of technical issues, including issues affecting other post employment healthcare plans, and steadily improve internal reporting capabilities.

The following is a representative list of retirement systems for which MGO has recently provided audit services:

- California Public Employees' Retirement System
- **Orange County Employees' Retirement System**
- Sacramento City Employees' Retirement System
- San Diego County Retirement Association
- San Diego City Employees' Retirement System
- San Bernardino County Retirements Association
- California State Teachers' Retirement System

## CERTIFICATE OF ACHIEVEMENT EXPERTISE

AS OUTLINED IN THIS PROPOSAL, PARTNERS AND STAFF ASSIGNED TO YOUR ENGAGEMENT ARE SEASONED, HIGHLY COMPETENT GOVERNMENT AUDITORS. OVER 70 PERCENT OF OUR FIRM'S AUDIT AND CONSULTING ENGAGEMENTS ARE GOVERNMENT RELATED.

Our reputation has been established by serving governmental entities ranging from small municipalities and counties, to some of the largest government organizations in the State with budgets in excess of \$22 billion.

MGO is committed to excellence in financial reporting. In fact, members of your engagement team have assisted in the Special Review Committee in reviewing Comprehensive Annual Financial Reports for the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting program.

## FAST FACTS

RETIREMENT PLAN EXPERIENCE

MGO audits CalPERS, the largest pension system in the country.



## GOVERNMENT EXPERIENCE.

Our firm's State and Local Governmental practice is one of the largest in the U.S. and offers unmatched resources in serving this highly complex sector, with specialists who are dedicated to year-round service. In California, our local government specialists have served over 100 cities, 16 counties and more than 200 special purpose units of government. Rest assured we will use our experience to provide a highly focused, efficient and effective audit. When it comes to auditing large, complex California cities, our experience is unmatched. MGO audits more top California cities than any other firm. During the last 5 years, we've been the principal auditors for 9 of the top 12 cities – Los Angeles, San Diego, San José, San Francisco, Fresno, Sacramento, Oakland, Santa Ana and Riverside

## FAST FACTS

PROVEN EXPERIENCE

MGO is the leading provider of audit services to large government entities in California:

MGO Audits

**9** of the **12**

LARGEST CITIES IN  
CALIFORNIA



In addition, MGO has audited the top 3 largest counties in California which consist of Los Angeles, San Diego and Orange.

SECTION 1-C

# Staff Qualifications and Experience

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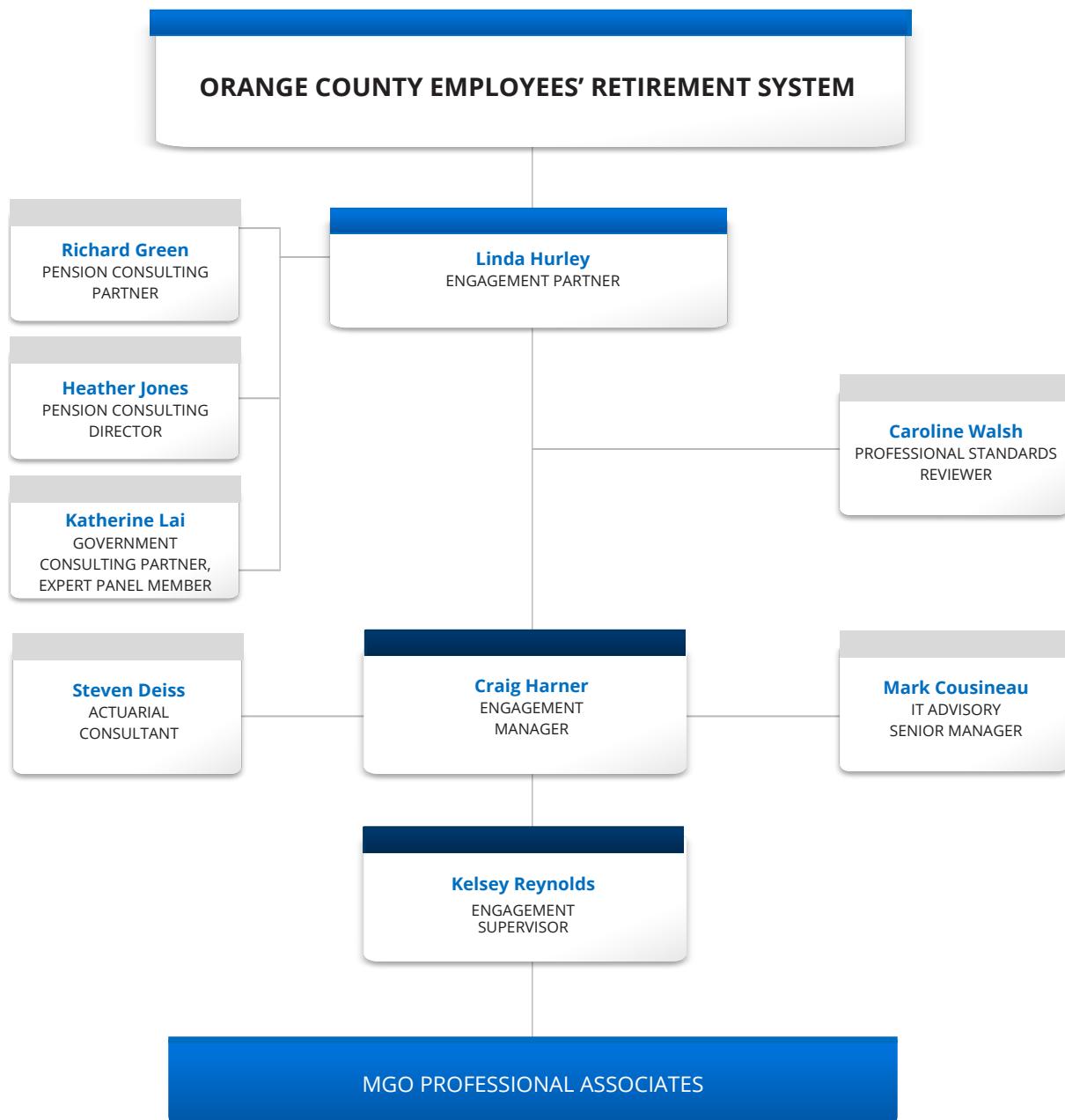


A new breed  
of professional  
services firm

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# A world-class team.

THE ENGAGEMENT TEAM SELECTED TO SERVE OCERS IS OUTSTANDING IN THEIR FIELD AND IN THE FIELD. THEY UNDERSTAND THE ISSUES AND OBSTACLES CONFRONTING THE AUDIT. THEIR KNOWLEDGE OBTAINED THROUGH CONTINUITY WILL ELIMINATE TIME HAVING TO UNDERSTAND OCERS' STRUCTURE, PROCESSES AND REPORTING.



## Partner Rotation Policy

California Assembly Bill 1345 Section 12410.6 (b) (AB 1345) states “Commencing with the 2013–14 fiscal year, a local agency shall not employ a public accounting firm to provide audit services to a local agency if the lead audit partner or coordinating audit partner having primary responsibility for the audit, or the audit partner responsible for reviewing the audit, has performed audit services for that local agency for six consecutive fiscal years.”

Because MGO has several qualified and experienced partners specializing in government audits, including specific experience with public pension plans, and understands the importance of a “fresh look,” the firm implemented a policy on partner rotation years ago and therefore is prepared to meet the requirements put in place by the passage of AB 1345. By adhering to this policy, we ensure our clients that the partner overseeing their audit is in accordance with AB 1345.

MGO has served OCERS for the last 5 years. Richard Green served as the engagement partner for the first 4 years and Linda Hurley transitioned to engagement partner for the 2014 audit. Linda Hurley is the proposed the proposed engagement partner for the new contract period. Because of her service to OCERS for the 2014 audit period, Linda will be allowed to serve as the engagement partner through the 2019 audit period. With OCERS adding the option year, a partner rotation will be required during the contract period. In anticipation of this, we have included Richard Green and Katherine Lai as consulting partners to ensure both have involvement in key financial accounting and reporting conclusions and familiarity with OCERS to ensure a smooth transition.

# Linda Hurley, CPA

## ENGAGEMENT PARTNER



### PROPOSED ROLE & RESPONSIBILITIES

- Assurance and Government Advisory Partner in the Orange County Office
- Leads and coordinates the delivery of the audit and technical assistance
- Leads project strategy and planning efforts
- Works closely with your management team
- Available throughout the year to ensure proactive issue identification and service delivery

### SUMMARY

Linda has over 18 years of professional experience providing auditing, accounting and consulting service to the public sector. In the public sector assurance practice, Linda has lead audits of numerous large government engagements.

Linda led the OCERS' audit engagement team for the 2014 audit and assisted OCERS in implementing GASB 67. The complexities of OCERS plan participants created unique challenges for both the actuaries and the auditors to ensure the allocation of the proportionate share of balances was reasonable for all participants. Linda and her team worked tirelessly ensure the information OCERS provided to their plan sponsors was clear and complete and delivered timely to ensure employer reporting deadlines were met.

Linda's other public sector experience includes leading the audits of the County of Orange, the largest participant in OCERS, County of Los Angeles, and City and County of San Francisco. She has also served numerous cities and special districts and special purpose governments, including the City of San Jose's Retirement Plans. She is currently assisting over 10 employers in their implementation of GASB 68.

Linda currently serves as the managing partner for the Orange County and Downtown Los Angeles operations and knows the effort and commitment it takes to assemble a top notch teams to serve complex organizations such as OCERS. Linda is committed to delivering the service OCERS has come to expect and truly deserves.

### EDUCATION

St. Mary's College, Moraga, California  
B.S., Economics & Business Administration (Accounting)

### ASSOCIATIONS

- Healthcare Financial Management Association
- American Institute of Certified Public Accountants
- California Society of Municipal Finance Officers
- California Society of Certified Public Accountants
- BDO & BDO Siedman Alliance Government Industry Group Advisory Council (former member)

### REPRESENTATIVE CLIENT EXPERIENCE

- **Orange County Employee's Retirement System**
- City of San Jose Retirement Plans

### County Governments

- Alameda
- Contra Costa
- Fresno
- Los Angeles
- Orange
- San Diego
- San Francisco
- San Mateo
- Santa Clara
- Solano
- Yolo

### City Governments

- |                    |                    |
|--------------------|--------------------|
| • Encinitas        | • Lawndale         |
| • Fresno           | • Rialto           |
| • Garden Grove     | • Rohnert Park     |
| • Hawaiian Gardens | • San Diego        |
| • Huntington Beach | • San Jose         |
| • La Habra         | • Santa Ana        |
|                    | • Santa Fe Springs |

### CONTINUED PROFESSIONAL EDUCATION

In the past three years Linda has accumulated 154.5 Continuing Professional Education units; of which 62 directly relate to government.

# Richard Green, CPA

## PENSION CONSULTING PARTNER



### PROPOSED ROLE & RESPONSIBILITIES

- Available throughout the year to ensure proactive issue identification and service delivery

### SUMMARY

Richard is an Assurance Partner in the Sacramento office of MGO. He has over 26 years of auditing, accounting, and consulting experience, including all phases of external and internal auditing.

Richard was appointed to the AICPA State and Local Government Expert Panel Pension Comment Letter Task Force, which reviewed the issued Government Accounting Standards Board (GASB) exposure drafts on pension accounting and reporting for employers and benefit plans. In addition, he is a member of the Governmental Accounting Standards Board Task Force on Pension Accounting Research. This task force assesses the effectiveness of current accounting and financial reporting requirements for pension plans and employers.

In addition to serving the San Francisco Employees' Retirement System, Richard currently serves as the engagement partner the California Public Employees' Retirement System (CalPERS), with reported assets in excess of \$329.4 billion.

### EDUCATION

California State University, Sacramento  
B.A., Business Administration, concentration in Accounting

### ASSOCIATIONS

- American Institute of Certified Public Accountants Nonprofit and Government Conference
- State Association of County Retirement Systems Conference
- California Association of Public Retirement Systems
- California Special Districts Association Conference
- BDO Seidman Alliance Conference
- California Society of Certified Public Accountants

### CONTINUED PROFESSIONAL EDUCATION

In the past three years Richard has accumulated 174.5 Continuing Professional Education units; of which 77.5 directly relate to government.

### REPRESENTATIVE CLIENT EXPERIENCE

#### Retirement Systems

- Fresno County Employees' Retirement Association
- Merced County Employees' Retirement System
- **Orange County Employees' Retirement System**
- Oregon Public Employees' Retirement System
- Sacramento County Employees' Retirement System
- San Bernardino County Employees' Retirement Association
- San Francisco Employees' Retirement System
- City of San José Federated City Employees' Retirement System
- City of San José Police and Fire Department Retirement Plan

#### State Government Entities

- California State Auditor
- CA Public Employees' Retirement System (CalPERS)
- CA State Teachers' Retirement System (CalSTRS)
- CA Board of Corrections
- CA Business Transportation & Housing Agency
- CA Dept. of Managed Health Care
- CA Dept. of Transportation - Caltrans
- CA Exposition and State Fair
- CA Infrastructure and Economic Development Bank
- CA Integrated Waste Management Board
- CA Office of Criminal Justice & Planning
- CA Department of Technology

#### County Governments

- Placer
- Sacramento
- Solano
- Sonoma
- Stanislaus
- Tuolumne
- Yolo

#### City Governments

- Los Angeles
- Modesto
- Rohnert Park
- Sacramento
- West Sacramento

# Katherine Lai, CPA CGMA

**GOVERNMENT CONSULTING PARTNER  
EXPERT PANEL MEMBER**



## PROPOSED ROLE & RESPONSIBILITIES

- Assurance Partner in the Orange County office of MGO
- Consults with Engagement Partner on technical issues
- If necessary, participates in client discussions about complex technical issues, and review reports for compliance with GAAP and professional auditing standards.

## SUMMARY

Katherine has led audits of numerous large, complex governmental entities and utilities throughout California for more than 15 years. Examples of her current and past clients include the Counties of Los Angeles and Orange; Cities of Los Angeles, Long Beach, and Santa Ana; Metropolitan Water District of Southern California; Los Angeles Department of Water and Power and the State of California.

Katherine serves as MGO's Assurance Service Leader and provides the strategic direction of assurance services including audit approach and training for MGO employees and clients. Katherine actively participates in the AICPA and was appointed to a select 15 member State and Local Government Expert Panel for FY2014-2017. She currently assists in shaping the AICPA's Audit and Accounting Guides for State and Local Governments and Government Audit Standards and A-133. She was recently recognized by the AICPA for her significant efforts in contributing to the newly published "Pension Chapter" of the 2015 AICPA Audit and Accounting Guide for State and Local Governments. Such audit guides provide critical instruction to practitioners and auditors alike on how to audit pensions in accordance with the new Pension Reform standards (GASB 67/68).

## EDUCATION

University of California, Los Angeles  
B.A., Economics with emphasis in Business and Accounting

## ASSOCIATIONS

- American Institute of Certified Public Accountants
- Member of the AICPA State and Local Government Expert Panel
- California Society of Certified Public Accountants (CalCPA)
- California Society of Municipal Finance Officers (CSMFO)
- Government Finance Officers Association (GFOA)
- American Public Power Association
- International Society of Filipinos in Finance and Accounting

## CONTINUED PROFESSIONAL EDUCATION

In the past three years Kathy has accumulated 217.5 Continuing Professional Education units; of which 82.5 directly relate to government.

## REPRESENTATIVE CLIENT EXPERIENCE

### State Government Entities

- California State Auditor

### City Governments

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• Alhambra</li> <li>• Beverly Hills</li> <li>• Burbank</li> <li>• Carson</li> <li>• Culver City</li> <li>• Garden Grove</li> <li>• Fresno</li> <li>• Huntington Beach</li> <li>• La Habra</li> <li>• Long Beach</li> <li>• Los Angeles</li> <li>• Rialto</li> </ul> | <ul style="list-style-type: none"> <li>• Riverside</li> <li>• San Diego</li> <li>• Santa Ana</li> <li>• Santa Fe Springs</li> <li>• Santa Monica</li> <li>• South Pasadena</li> <li>• Las Vegas, Nevada</li> </ul> |
|--|--|

### County Governments

- Los Angeles
- Orange
- Riverside
- San Diego

# Heather Jones, CPA

## PENSION CONSULTING DIRECTOR



### PROPOSED ROLE & RESPONSIBILITIES

- Available throughout the year to ensure proactive issue identification and service delivery

### SUMMARY

Heather has over 20 years of accounting and auditing experience. She has directed financial audits that include a wide range of employee benefit plans, such as, defined benefit, defined contribution, and health and welfare. Heather will assist with complex audit issues such as market valuation of certain investments, actuarial assumptions and methodologies; and new financial accounting and reporting developments.

Heather has served as Director on each of the public retirement systems listed. Services provided for each client include performing an audit on the financial statements in accordance with standards generally accepted in the United States of America as promulgated by the American Institute of Certified Public Accountants. Also, a majority of the audits were performed in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

Heather was presented the Excel Award from the Illinois CPA Society for finishing in the top 120 nationwide on the CPA exam.

### EDUCATION

California State University, Sacramento  
B.S., Business Administration with a Concentration in Accounting

### ASSOCIATIONS

- American Institute of Certified Public Accountants
- California Society of Certified Public Accountants
- Association of Government Accountants

### CONTINUED PROFESSIONAL EDUCATION

In the past three years Heather has accumulated 114 Continuing Professional Education units; of which 30 directly relate to government.

### REPRESENTATIVE CLIENT EXPERIENCE

#### Retirement Systems

- City of Oakland Municipal Employees' Retirement System
- City of Oakland Police and Fire Retirement System
- Fresno County Employees' Retirement Association
- **Orange County Employees' Retirement System**
- Oregon Public Employees Retirement System
- Sacramento City Employees' Retirement System
- Sacramento County Employees' Retirement System
- San Diego City Employees' Retirement System
- San Diego County Employees Retirement Association
- San Francisco City and County Employees' Retirement System
- San Jose Federated City Employees' Retirement System
- San Jose Police and Fire Department Retirement Plan

#### State Government Entities

- California State Auditor
- CA Public Employees' Retirement System (CalPERS)
- CA State Teachers' Retirement System (CalSTRS)
- Oregon Secretary of State

#### County Governments

- San Francisco
- Tuolumne

# Caroline Walsh, CPA

## PROFESSIONAL STANDARDS REVIEWER



### PROPOSED ROLE & RESPONSIBILITIES

- Performs a second review of the financial statements and other reports to provide additional assurance that the audit conforms to the firm and professional standards.
- Available to assist the team with any technical issues that may arise during the audits.

### SUMMARY

Caroline has over 37 years of specialized experience in auditing and consulting for local governmental entities, nonprofit, insurance, healthcare, and corporate enterprises. Prior to her 24 years with MGO, she spent 13 years with a Big 4 firm where she was the lead government senior manager.

Caroline is MGO's Chief Quality Officer serving as the chair of the firm's Professional Practice Group. She is responsible for firm-wide quality control standards, including annual internal quality control inspections, triennial peer review, and professional standards quality control reviews of the firm's financial and compliance reports.

Because of Caroline's technical expertise, for the last decade she has been appointed to the executive and expert committees of the AICPA and GASB technical advisory committees.

### EDUCATION

California State University, Northridge  
B.A., Mathematics

### ASSOCIATIONS

- American Institute of Certified Public Accountants
- Member of AIPCPA State & Local Government Expert Panel (2006-2009)
- Member Executive Committee AICPA Governmental Audit Quality Center (2011-2014)
- Current member GASB Advisory Committees Implementation Guidance and GAAP Hierarchy Standard
- CalCPA, Government Accounting and Auditing Committee

### CONTINUED PROFESSIONAL EDUCATION

In the past three years Caroline has accumulated 231.5 Continuing Professional Education units; of which 102.5 directly relate to government.

### REPRESENTATIVE CLIENT EXPERIENCE

#### Retirement Systems

- California Public Employees' Retirement System
- San Francisco Employees' Retirement System
- City of San José Federated City Employees' Retirement System
- City of San José Police and Fire Department Retirement Plan

#### City Governments

- Bell
- Compton
- Los Angeles
- Oakland
- Sacramento
- San Bernardino
- San Diego
- San Francisco
- San Jose
- Santa Rosa

#### County Governments

- Contra Costa
- Los Angeles
- Maui, Hawaii
- Orange
- Sacramento
- San Bernardino
- San Diego
- San Mateo

# Craig Harner, CPA

## ENGAGEMENT MANAGER



### PROPOSED ROLE & RESPONSIBILITIES

- Performs engagement planning
- Consults with audit team on issues and progress of fieldwork
- Discusses accounting and control issues and assists in resolving those issues
- Manages the day-to-day execution of the audit activities and directs task accomplishments, monitors progress, and ensures schedule compliance.
- Coordinates the timing of receipt of client prepared items with staffing requirements
- Ensures audit work performed conforms to professional and firm quality controls standards

### SUMMARY

He is MGO's public retirement system manager, and has served each of the public retirement systems listed. As engagement manager on the firm's retirement systems, Craig's expertise lies in assessing audit risk and designing audit procedures related to the respective investment portfolios and he has extensive experience implementing GASB 67 (e.g. examining census data used to measure total pension liabilities, reviewing actuarial assumptions and related disclosures, reviewing calculations of net pension liabilities) and GASB 68 (e.g. auditing proportionate shares, net pension liability, deferred outflows/ inflows of resources, pension expense and related disclosures).

Craig joined the OCERS engagement team for the 2014 audit and was instrumental in assisting OCERS implement GASB 67. Craig is proposed to continue managing the engagement and will work with OCERS as they prepared for the implementation of GASB 72, Fair Value Measurement and Application.

### EDUCATION

California State University Sonoma  
B.S. Business Administration with concentration in Accounting

### ASSOCIATIONS

- American Institute of Certified Public Accountants
- California Society of Certified Public Accountants

### CONTINUED PROFESSIONAL EDUCATION

In the past three years Craig has accumulated 152 Continuing Professional Education units; of which 85.5 directly relate to government.

### REPRESENTATIVE CLIENT EXPERIENCE

#### Retirement Systems

- California Public Employees' Retirement System
- California State Teachers' Retirement System
- **Orange County Employees' Retirement System**
- Oregon Public Employees Retirement System
- Stanislaus County Employees' Retirement Association
- Merced County Employees' Retirement Association

#### County Governments

- San Francisco
- Solano
- Sonoma
- Tuolumne

#### City Governments

- Lodi
- Sacramento
- San Francisco
- Santa Rosa

# Kelsey Reynolds, CPA

## ENGAGEMENT SUPERVISOR



### PROPOSED ROLE & RESPONSIBILITIES

- Performs engagement planning
- Supervises fieldwork
- Reviews and analyzes client internal controls
- Supervises engagement staff
- Researches issues as directed by Engagement Manager
- Oversees the day-to-day execution of the audit plan

### SUMMARY

Kelsey has four years of experience in governmental auditing, training, accounting and management services. Her areas of expertise include financial audits and compliance audits as well as assessing internal controls and management systems.

Her role as Supervisor includes working closely with Craig to assist in planning procedures to ensure risks are appropriately addressed during the engagement, timely communication with management through weekly audit status meetings and a commitment to reporting deadlines, among other things. She will oversee auditing more complex sections such as investments and actuarial estimates.

Kelsey has served on the OCERS engagement team for the last 2 audits. She has a deep understanding of OCERS operations and how changes we directly impact the financial statements. Kelsey also served as the senior on the County of Orange, OCERS largest participant and can easily navigate the necessary coordination and communication to complete required procedures on employer data in accordance with GASB Statement 67.

### EDUCATION

Master of Accountancy, Audit & Assurance  
University of Iowa

B.A., Business Administration (Accounting)  
Seattle University

### ASSOCIATIONS

- American Institute of Certified Public Accountants
- California Society of Certified Public Accountants

### CONTINUED PROFESSIONAL EDUCATION

In the past three years Kelsey has accumulated 140 Continuing Professional Education units; of which 75 directly relate to government.

### REPRESENTATIVE CLIENT EXPERIENCE

#### Governmental Entities

- **Orange County Employees' Retirement System**
- Metropolitan Water District of Southern California
- Riverside County Transportation Commission
- State of Hawaii Employer-Union Health Benefits Trust Fund

#### County Governments

- Contra Costa
- Orange

#### City Governments

- Encinitas
- Fresno
- Garden Grove
- Hawaiian Gardens
- Huntington Beach
- La Habra
- Lake Forest
- Rialto
- San Diego
- Santa Ana
- Santa Fe Springs

# Mark Cousineau, CPA/CTIP, CGMA CIA, CFE, CGAP, CGFM, CRMA

## IT ADVISORY SENIOR MANAGER

### PROPOSED ROLE & RESPONSIBILITIES

- Conducts IT general and application controls assessments and focus reviews on system security and governance as directed by the Project Liaisons
- Works closely with assurance professionals to conduct the information systems review

### SUMMARY

Mark has over 25 years of high-level organizational management and leadership experience. Mark is an expert in the state and local sector. His areas of expertise include internal controls, internal audit activities including annual audit plan risk assessments, proprietary accounting and reporting with emphasis on self-insurance funds and municipal landfills, federal cost principles (2 CFR 200), and fraud hotline oversight. He has served as the Chief Deputy Auditor and Chief Deputy Controller for the County of San Bernardino Auditor-Controller/Treasurer/Tax Collector and as a Chief Accountant, for the Riverside County Auditor-Controller's Office.

### EDUCATION

California State University, San Bernardino  
B.A. Accounting Concentration

### ASSOCIATIONS

- American Institute of Certified Public Accountants
- California Society of Certified Public Accountants
- Institute of Internal Auditors (IIA)
- Association of Certified Fraud Examiners
- Association of Government Accountants
- IIA, Inland Empire Chapter, Board of Governors
- California Housing foundation, Board of Directors-Secretary

### CONTINUED PROFESSIONAL EDUCATION

In the past three years Mark has accumulated 85 Continuing Professional Education units; of which 75 directly relate to government.

### REPRESENTATIVE CLIENT EXPERIENCE

#### Governmental Entities

- California Solar Initiative
- City of Los Angeles
- City of Rolling Hills Estate
- City of San Bernardino
- County of San Bernardino
- County of Los Angeles
- County of Orange

# Steve Deiss, E.A., M.A.A.A.

## ACTUARIAL CONSULTANT

### PROPOSED ROLE & RESPONSIBILITIES

- Available throughout the year to ensure proactive issue identification and service delivery

### SUMMARY

Steven is an Enrolled Actuary and a Member of the American Academy of Actuaries. Steven is the President and Owner of Independent Actuaries, Inc. (IAI), and has 19 years of experience in actuarial consulting, including 10 years at a large national actuarial firm.

Steven specializes in pension plan and post-retirement medical actuarial valuations, and reviewing financial statements in accordance with GASB Statements 26, 27, 43 45 and 67 (in the public sector), ASC Topics 715 and 930 (in the private sector), and SOP 92-6 (for VEBA trusts). He has also led a wide range of special consulting projects, such as plan design studies, plan termination studies, and early retirement window offerings.

He has performed as the consulting actuary on the financial statement audit of StanCERA. Steven's role and responsibilities include reviewing and commenting on the actuarial assumptions and valuations obtained by StanCERA related to the Pension Trust Fund and to provide other actuarial support to the audit team as directed by the engagement team.

Steven is the head of the GASB reporting initiative at IAI, and has hosted multiple web-based seminars on GASB Statements 43 and 45 attended by public employers from states throughout the Pacific Northwest. His background consulting with both public and private sector sponsors of pension and OPEB programs includes performing actuarial valuations and studies for plans with over 10,000 participants. He has also performed actuarial reviews connected with the audit of multiple public sector pension and OPEB programs to assure compliance with applicable GASB Statements.

### EDUCATION

Santa Clara University  
B.S. in Mathematics

### CONTINUED PROFESSIONAL EDUCATION

Not Applicable

### REPRESENTATIVE CLIENT EXPERIENCE

- Orange County Employees' Retirement System
- California Public Employees' Retirement System
- San Diego County Employees' Retirement Association
- San Jose Police and Fire Department Retirement Plan
- San Jose Federated City Employees' Retirement System
- Stanislaus county Employees' Retirement Association
- Merced County Employees' Retirement Association

## **Continuity of Key Personnel.**

Continuity of professional personnel is an important element in our service plan for OCERS.

Excessive personnel turnover, particularly at the staff level, sometimes creates confusion for client personnel and necessitates a series of "start-up" periods while new personnel becomes familiar with the engagement. To ensure that the System's personnel derive maximum benefit from their working relationships with our people, we will continue to maintain the highest possible level of staff continuity throughout the course of the engagement.

Key professional personnel will be available to the extent proposed for the duration of the engagement, acknowledging that no person designated as "key" to the engagement shall be removed or replaced without the prior written concurrence of the System.

Upon award and during the course of the contract, if we are presented with circumstances requiring a change in the composition of the engagement team, MGO will select replacements of similar background and experience. We will submit their name and qualifications, including additional information presented in our proposal, to the System for written approval prior to their beginning work on the contract. The System will have the right to approve or reject replacement members.

## **Continuing Professional Education of Employees.**

We strive to keep our staff current with the ever-changing criteria and related applications affecting complex organizations.

In compliance with Generally Accepted *Government Auditing Standards*, our firm administers a program to ensure that all professional staff members meet Continuing Professional Education (CPE) requirements. Since a large composition of MGO's client base includes governmental entities, we follow the strict educational guidelines required by the "Yellow Book," *Government Auditing Standards*, published by the U.S. Government Accountability Office. Our audit team receives their CPE from both in-house and commercially-certified CPE training courses. All members of the audit team have satisfied the Yellow Book requirement of having at least 80 hours of continuing professional education every two years, of which 24 must directly relate to the government environment and to government auditing. Over the years, our staff has attended numerous qualifying CPE classes for governmental training related to the Government Finance Officers Association (GFOA), Governmental Accounting, Auditing and Financial Reporting, Governmental Internal Control, GASB Updates, Single Audit Updates, and self-study coursework.

SECTION 1-D

# Proposal Guarantees and Warranties

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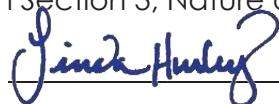
## Appendix B

### ***Proposer Guarantees and Warranties***

#### **PROPOSER GUARANTEES**

The proposer certifies it can and will provide and make available, as a minimum, all services set forth in Section 3, Nature of Services Required.

Signature of Official:



Name (typed):

Linda Hurley

Title:

Partner

Firm:

Macias Gini & O'Connell LLP

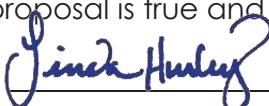
Date:

11/16/2015

#### **PROPOSER WARRANTIES**

1. Proposer warrants that it is willing and able to comply with State of California laws with respect to foreign (non-state of California) corporations.
2. Proposer warrants that it is willing and able to obtain an errors and omissions insurance policy providing a prudent amount of coverage for the willful or negligent acts, or omissions of any officers, employees or agents thereof.
3. Proposer warrants that it will not delegate or subcontract its responsibilities under an agreement without the prior written permission of OCERS.
4. Proposer warrants that all information provided by it in connection with this proposal is true and accurate.

Signature of Official:



Name (typed):

Linda Hurley

Firm:

Macias Gini & O'Connell LLP

Date:

11/16/2015

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## SECTION 2

# Technical Requirements

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SECTION 2-E

# Standard Professional Services Contract

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**DATE**

To the Board of Retirement of Example  
City, California

We are pleased to confirm our understanding of the services we are to provide to the Example Client (Example) for the year ended June 30, 2015. We will audit the financial statements of the Client and the related notes to the financial statements, which collectively comprise the basic financial statements, of the Example as of and for the year ended December 31, 201X. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the Example's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

As part of our engagement, we will apply certain limited procedures to the Example's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

1. Management's Discussion and Analysis.
2. Schedule of Changes in Net Pension Liability of Participating Employers
3. Schedule of Investment Returns
4. Schedule of Employer Contributions
5. Significant Factors Affecting Trends in Actuarial Information – Pension Plan
6. Schedule of Funding Progress - OPEB
7. Schedule of Employer Contributions - OPEB
8. Significant Factors Affecting Trends in Actuarial Information – OPEB Plan

We have also been engaged to report on supplementary information other than RSI that accompanies Example's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and we will provide an opinion on it in relation to the financial statements as a whole.

1. Schedule of Administrative Expenses
2. Schedule of Investment Expenses
3. Schedule of Payments for Professional Services
4. Statement of Changes in Assets and
5. Liabilities – OPEB Agency Fund

The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that other information:

1. Introductory Section
2. Investment Section
3. Actuarial Section
4. Statistical Section

In addition to our reports on the above-mentioned financial statements, we will also issue the following types of reports:

- A management report of recommendations to improve managerial or operational effectiveness and efficiency, including certain matters that are not considered to be significant deficiencies.
- An Audit Committee or equivalent letter as promulgated by the reporting standards of the *Government Auditing Standards*.

### Audit Objectives

The objective of our audit is the expression of opinions as to whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of the accounting records of Example and other procedures we consider necessary to enable us to express such opinions. We will issue a written report upon completion of our audit of Example's financial statements. Our report will be addressed to the Board of Retirement of Example. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or add emphasis-of-matter or other-matter paragraphs. If our opinion on the financial statements are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or issue a report, or may withdraw from this engagement.

We will also provide a report (that does not include an opinion) on internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The report on internal control and on compliance and other matters will include a paragraph that states (1) that the purpose of the report is solely to describe the scope of testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control on compliance, and (2) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The paragraph will also state that the report is not suitable for any other purpose. If during our audit we become aware that Example is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

## Audit Procedures—General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the government or to acts by management or employees acting on behalf of the government. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. Our responsibility as auditors is limited to the period covered by our audit and does not extend to later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about your responsibilities for the financial statements; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by generally accepted auditing standards.

## Audit Procedures—Internal Control

Our audit will include obtaining an understanding of the government and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards and *Government Auditing Standards*.

## Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of Example's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

## Management Responsibilities

Management is responsible for establishing and maintaining effective internal controls, including evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; following laws and regulations; and ensuring that management and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles, for the preparation and fair presentation of the financial statements and all accompanying information in conformity with U.S. generally accepted accounting principles, and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the written representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the government complies with applicable laws, regulations, contracts, agreements, and grants and for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse that we report.

You are responsible for the preparation of the supplementary information, which we have been engaged to report on, in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying and providing report copies of previous financial audits, attestation engagements, performance audits or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or other studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

You agree to assume all management responsibilities relating to the financial statements and related notes and any other nonaudit services we provide. You will be required to acknowledge in the management representation letter our assistance with preparation of the financial statements and related notes and that you have reviewed and approved the financial statements and related notes prior to their issuance and have accepted responsibility for them. Further, you agree to oversee the nonaudit services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of those services; and accept responsibility for them.

#### **Engagement Administration, Fees, and Other**

We may from time to time, and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

We understand that your employees will prepare all cash, accounts receivable, or other confirmations and schedules we request and will locate any documents selected by us for testing.

We will provide copies of our reports to Example; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Macias Gini & O'Connell LLP and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to California State Controller's Office or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Macias Gini & O'Connell LLP personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of seven years after the report release date or for any additional period requested by the California State Controller's Office. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

Professional and certain regulatory standards require us to be independent, both in fact and appearance, with respect to Example in the performance of our services. To ensure that Macias Gini & O'Connell LLP's independence is not impaired under the AICPA Code of Professional Conduct and Government Auditing Standards, you agree to inform the engagement partner before entering into any substantive employment discussions with any of our personnel, so that we can implement appropriate safeguards to maintain our independence.

We expect to begin our audit on approximately DATE, 201X, and to issue our reports no later than DATE, 201X. NAME OF ENGAGEMENT PARTNER is the engagement and are responsible for supervising the engagement and signing the reports or authorizing another individual to sign them.

Our fee for these services will be at our standard hourly rates (OR contract rates plus out-of-pocket costs (such as report reproduction, word processing, postage, travel, copies, telephone, etc.) except that we agree that our gross fee, including expenses, will not exceed \$ \_\_\_\_\_. Our standard hourly rates(OR contract rates) vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes 60 days or more overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

We appreciate the opportunity to be of service to Example and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

MACIAS GINI & O'CONNELL LLP

RESPONSE:

This letter correctly sets forth the understanding of Example

By: \_\_\_\_\_

Title: \_\_\_\_\_

SECTION 2-F

# Business References

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# DON'T TAKE OUR WORD FOR IT, ASK OUR CLIENTS

A representative list of significant engagements performed that demonstrates our experience and expertise in serving entities of similar size and complexity is indicated below. Additional references are available upon request.

## **California Public Employees' Retirement System**

Contact Info: Beliz Chappuie, Office of Audit Services  
P.O. Box 942073, Sacramento, CA 94229  
T: 916.795.2454  
E: beliz\_chappuie@calpers.ca.gov

Years Served: 6.30.2007 - Present

Scope of Work: Conduct annual audit of CalPERS' basic financial statements for 13 separate funds. The basic financial statements include defined benefit and defined contribution pension, deferred compensation, other post-employment benefits, health care and long-term care funds. The CAFR receives the GFOA Certificate of Achievement for Excellence in Financial Reporting. In addition, assist CalPERS' internal audit division and perform several agreed-upon procedures engagements related to CalPERS' health and investment programs.

## **San Bernardino County Employees' Retirement Association**

Contact Info: Julie Underwood, Chief of Fiscal Services  
348 W. Hospitality Lane, Third Floor, San Bernardino, CA 92415  
T: 909.885.7980 EXT 330  
E: junderwood@sbcera.org

Years Served: 6.30.2009 - Present

Scope of Work: Conduct annual audit of SBCERA basic financial statements.

## **Sacramento County Employees' Retirement System**

Contact Info: Kathryn Regalia, Chief Operating Officer  
980 9th Street, Suite, 1900, Sacramento, CA 95814  
T: 916.874.9088  
E: regaliak@saccounty.net

Years Served: 6.30.2006 - Present

Scope of Work: Conduct annual audit of SCERS basic financial statements.

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SECTION 2-G

# Specific Audit Approach

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# We understand your needs.

OUR PHILOSOPHY FOR A SUCCESSFUL ENGAGEMENT IS BASED ON PLANNING, ORGANIZATION, COMMUNICATION, AND COORDINATION BETWEEN THE TWO PARTIES RESPONSIBLE FOR THE COMPLETION OF THE AUDIT: THE CPA FIRM AND THE CLIENT. WE WILL MEET WITH THE APPROPRIATE MANAGEMENT PERSONNEL ON A REGULAR BASIS TO REPORT ON THE PROGRESS OF OUR AUDIT AND ON OUR PRELIMINARY AUDIT FINDINGS. WE ASK THAT YOU COMMUNICATE TO US ANY FORESEEABLE DELAYS IN THE DELIVERY OF ACCOUNTING RECORDS, FINANCIAL STATEMENTS, AND/OR OTHER DOCUMENTS NEEDED TO COMPLETE THE AUDIT.

## **Retirement Systems**

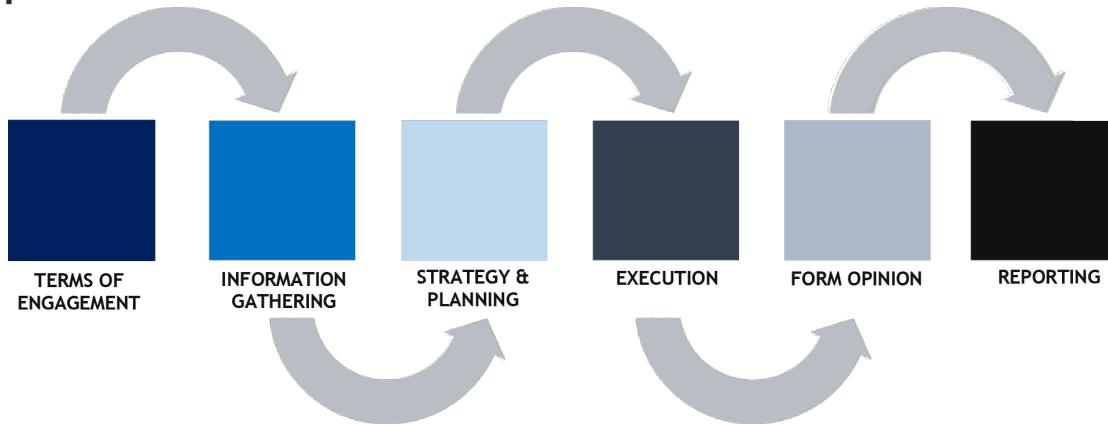
We will audit the aforementioned financial statements in accordance with auditing standards generally accepted in the United States of America (GAAS) as promulgated by the American Institute of Certified Public Accountants (AICPA) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States for the purpose of issuing an Independent Auditor's Report that includes our opinion on the fair presentation of the basic financial statements, in conformity with accounting principles generally accepted in the United States of America (GAAP) for the years ended December 31, 2015, 2016, 2017, 2018, and 2019 with an option for a one year extension for the year ended December 31, 2020.

GAAP provides for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A) pension schedules as prescribed by GASB 67, and actuarial data for other postemployment plans to accompany the basic financial statements. As part of our engagement, we will apply certain limited procedures to the RSI. These limited procedures will consist principally of inquiries of management regarding methods of measurement and presentation. Supplementary information other than RSI, also accompanies the basic financial statements. We will subject certain supplementary information to auditing procedures applied in our audit, which we will provide an opinion "in relation" to the basic financial statements.

We will issue a Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Included in this report, if applicable, will be deficiencies identified during the audit that upon evaluation are considered significant deficiencies or material weaknesses as defined by AU-C 265 Communicating Internal Control Related Matters Identified in an Audit, of the AICPA's Codification of Auditing Standards.

Our approach entails an analysis of audit risks leading to a focus of audit effort. MGO uses this approach in our public company and government entity audits and have provided training and educational programs related to these new standards since 2005 so that we can implement them seamlessly and without interruption to your schedule.

## Audit Approach.



The audit involves the following stages:

- Agree terms of engagement - We first agree with the client the objectives of the engagement and the nature and timing of our reports.
- Gather information - We obtain our understanding of OCERS' business, information system and organization, and the ways in which management exercises control.
- Develop audit strategy - Based on our knowledge, we then move to a detailed assessment of the risks potentially affecting the financial statements. A client-specific audit strategy is then developed, focusing our audit efforts on financial statement areas where there are significant risks of material misstatement, whether due to fraud or error. We select those procedures which will provide us with the necessary evidence with optimum timing and efficiency.
- Execute the audit - We then perform the selected audit procedures, ensuring that they are carried out by staff who have a level of experience and knowledge relevant to the planned procedures. The results are evaluated to determine whether we have sufficient appropriate audit evidence or whether additional procedures need to be performed.
- Form an opinion - We draw together all the evidence we have obtained and consider whether we have obtained reasonable assurance that the risk of material misstatement has been reduced to an appropriately low level.
- Report - We issue our report, ensuring that it is a clear expression of opinion on the financial statements. In addition we report on other matters covered by the terms of our engagement.

Throughout the audit process we gain knowledge which, combined with our general experience and expertise, provides us with a unique insight into OCERS' operations and with opportunities for identifying improvements, not only with respect to accounting and information systems but also regarding broader, and often more significant areas such as organizational structure and financial planning. This insight is often a source of valuable business advice which may be communicated to OCERS.

Our audit approach is based on our experience auditing retirement systems over many years. The key element in performing a successful audit of a retirement system is to have knowledgeable professionals that know the industry and environment. In order to perform the audit timely and meet or exceed your deadlines, we will work closely with your staff while planning the engagement.

Our approach emphasizes comprehensive and timely audit planning. Some of the techniques to eliminate last-minute surprises are: our managers and partners complete a pre-review of the basic financial statements, stay abreast of new GASB pronouncements and continually communicate with OCERS' personnel to discuss staff assignments, timing of obtaining a comprehensive list of schedules, confirmations, and analysis of selected account balances.

## We don't just check it over, we triple check it over.

Our audit strategy recognizes that OCERS operations are highly complex, and our audit work plan carefully considers the unique characteristics of the following funds:

- Pension Trust Fund
- Other Post-Employment Benefits Fund

Over time, we have developed a thorough and efficient audit work plan. Our audit, including statistical sampling and analytical procedures, reflect the current operating environment and will continue to evolve as accounting rules change and new audit risks surface. Based on our extensive experience and understanding of OCERS' operations, our audit work plan will address the following significant financial statement and audit areas:

### Investments

- Design and function of internal controls over investments, including the following:
  - Development of investment policies and guidelines, including asset allocation, benchmarking, securities lending, derivative, foreign currency management and real estate leveraging
  - Hiring and monitoring of the custodian bank, asset and fund managers and other investment consultants
  - Authorization for the purchase and sale of internally managed investments
  - Methodologies and techniques used to determine fair values
  - Account reconciliations and general ledger posting of investment transactions
- Performance and review of investment account reconciliations
- Compliance with asset allocation, securities lending, derivative, and leverage policies
- Classification of investments
- Using statistical sampling method to determine investment sample size and to validate fair value of investment transactions
- Recording of investment transactions, including purchases, sales, capital calls, distributions, interest and dividends
- Selection and payment of asset and fund managers
- Monitoring and reporting of the custodian bank, asset and fund managers, advisors and general partners
- Performance of high precision analytical procedures by comparing actual investment rate of returns to the target and benchmark rate of returns
- Conformity of financial statement disclosures to accounting and financial reporting standards

### Contributions

- Design and function of internal controls over contributions, including:
  - Determination and monitoring of member payroll
  - Use of proper contribution rates
- Proper calculation of employer and plan member contributions based on pensionable earnings and approved contribution rates
- Performance of high precision analytical procedures using the approved contribution rates and pensionable salary to determine proper contribution amounts
- Confirmation of contributions received from selected participating employers
- Proper recording as to member, amount and period

### Benefit Payments

- Design and function of internal controls over benefit payments, including:
  - Eligibility to receive benefits
  - Calculation and review of benefit payments in accordance with plan provisions
  - Support for distributions and withdrawals (as applicable)
  - Application of new benefit provisions or legislative changes
- Performance of high precision analytical procedures, using IDEA software, query benefit payments to identify anomalies or unusual and duplicate payments
- Performance of analytical procedures for unusual or significant changes from the prior year
- Proper recording as to member, amount and period

### Actuarial Data

- Application of plan provisions in actuarial valuations
- Performance of actuarial experience studies
- Compliance of actuarial assumptions and methods with Actuarial Standards of Practice
- Compliance of actuarial assumptions and methods with generally accepted accounting principles
  - GASB Statement No. 67, Financial Reporting for Pension Plans - An Amendment of GASB Statement No. 25
- Accuracy and reliability of member data
- Performance of data mining procedures using IDEA software, query member data provided by OCERS and member data used by the third-party actuary to verify accuracy and completeness of data used in performing the annual actuarial valuation report

### Reporting

- Review financial statements and related disclosures to ensure conformity with GAAP
- Review and completion of the GFOA excellence in financial reporting disclosure checklist

## Our Proven 4-step Approach to Assessing Control Risk

### STEP 1: Risk Assessment.

#### SUMMARY

In Step 1, the financial statement risk assessment, project plan, roles and responsibilities, and communication protocols are developed collectively with engagement team members.

#### ACTIVITIES

- Identify financial reporting risks (including fraud) via brainstorming sessions and interviews
- Determine financial statement account risks by analyzing quantitative and qualitative factors
- Identify relevant assertions and related risks
- Evaluate multiple locations
- Evaluate documentation standards (risk and control matrixes, flowcharts, etc.) and assessment process (one-on-one, facilitated sessions, self-assessments)
- Establish status reporting and communication protocols
- Develop project/audit plans

#### DELIVERABLES

Deliver Audit Plans for OCERS which includes our financial statement risk assessment, project plan and communication plan

### STEP 2: Entity-level.

#### SUMMARY

The objective of Step 2 is to evaluate the organization's entity-level control environment using the widely accepted COSO evaluation framework. Although not directly involved with the processing of transactions, these pervasive controls can have a significant effect on the financial reporting process. Information technology controls associated with financial reporting are also evaluated using the COBIT framework.

#### ACTIVITIES

- Review elements of COBIT and COSO with the engagement teams
- Document and test entity-level controls via walkthroughs, interviews and detailed testing
- Identify and test general controls over information technology systems upon which other significant application controls are dependent
- Report key findings and discuss remediation steps
- Prepare summary of entity-level controls (including IT)

#### DELIVERABLES

Prepare improvement recommendations and summary of deficiencies

### STEP 3: Transaction-level Control Assessment.

#### SUMMARY

During Step 3, the engagement team will identify significant financial reporting controls for higher risk accounts (per the financial statement risk assessment). An assessment will be made as to whether controls are appropriately designed to mitigate the identified risks. The risk that a control might fail to operate will also be evaluated.

#### ACTIVITIES

- Identify key financial reporting controls
- Perform walkthroughs to assess design effectiveness
- Evaluate the risk of control failure, considering factors such as:
  - Past errors
  - Entity-level controls
  - Competency of personnel
  - Develop/ evaluate risk and control matrices of all key risks and related to control points
  - Walkthrough results
  - Assess the design of controls

#### DELIVERABLES

Prepare improvement recommendations and summary of deficiencies

### STEP 4: Testing and Reporting.

#### SUMMARY

The final stage of our internal controls approach involves developing and executing a test plan of the transaction-level key controls. An assessment is made as to whether the controls are operating as intended to mitigate the associated risk. The nature, timing and extent of testing is correlated with the risk of control failure determined in Step 3.

#### ACTIVITIES

- Develop test plan and testing strategy for key controls, including nature, timing and extent of testing
- Execute testing and summarize results
  - Evaluate whether controls are operating effectively
  - Investigate root cause(s) of control weaknesses
  - Design substantive tests based on control testing results

#### DELIVERABLES

Summary of recommendations and deficiencies

## MGO's Approach to Internal Controls

We assess overall controls each year using PPC SMART Practice Aids, which poses a number of critical questions designed to identify the existence of strengths that would reduce or mitigate the risk of misstatement.

Each strength is considered in terms of its effect on each significant financial statement area, or underlying transaction stream, and the related assertions. However, the importance of the control environment, risk assessment, and monitoring components stem from their pervasive influence. As part of our Execution Stage of the audit, we perform system walkthroughs and/or tests of controls identified as control points in our risk assessment to determine whether the internal controls prescribed by management are functioning as designed.

Some of the audit steps that we perform during this part of the Execution Stage are as follows:

- Test controls of significant transaction streams using statistical sampling methods to determine that the checks and balances are functioning as prescribed. Our sample sizes generally vary from 40 to 60 items depending on our assessment of control and detection risks.
- If applicable, identify instances where the internal controls failed to detect an error and report these instances to management. If the finding is of substance, document our findings in a preliminary management letter so that necessary corrections can be made immediately.
- Based on our test results, re-evaluate our preliminary assessment of control risk and make necessary changes to our audit approach.

The level of controls assurance is assessed for each assertion for each respective material/significant financial statement area. The extent of assurance we take from controls is assessed by completing a detailed evaluation of controls, which would require both:

- The consideration of the design of important control activities relevant to the specific assertion that we are considering; and
- The performance of tests of controls to test adherence to the relevant control activities.

Upon completion of these tests, we update our preliminary evaluation of the control environment and the related accounting and administrative procedures. Based upon the results of our tests, we may revise our assessment of control risk for each significant area.

## MGO's Approach to Analytical Procedures

Auditing standards require the use of analytical procedures in the planning and overall review stages of the audit. They may be used throughout the audit:

1. To direct our attention during the planning stage to areas where amounts appear unusual to the extent that we are put on warning that a material amount may be misstated;
2. To provide an important source of audit evidence at the execution stage or substantive analytical procedure; and
3. In forming an opinion on the financial statements by assessing the overall reasonableness of these statements.

**Preliminary Analytical Reviews** – assist us in planning the nature, timing, and extent of auditing procedures that will be used to obtain evidential matter for specific account balances or classes of transactions. To accomplish this, we focus on enhancing our understanding of the client's business and the transactions and events that have occurred since the last audit date and identifying areas that may represent specific risks relevant to the audit.

Our work should normally cover a comparison of:

- Actual results to budget;
- Current year operating results and financial position with the prior year;
- Key financial and operating ratios with the prior year, the industry, and with each other;
- Relationships among elements of financial information within the period; and
- Relevant non-financial information (e.g., number of employees, square footage, etc.).

**Substantive Analytical Procedures - (SAPs)** - essentially involve a comparison of an amount in the financial statements with what we would expect that amount to be based on our knowledge of the organization and having regard to other audit evidence.

Our work should normally involve utilizing the following techniques:

- Using data mining software (IDEA) to extract data and prepare subsequent analysis to concentrate on.
- Determining whether there is a valid relationship between the items being compared (e.g., between interest and interest bearing balances).
- Disaggregating information to compute ratios, percentages and amounts for different funds separately.
- Use of pivot tables to identify unusual or unexpected trends.

Our use of IDEA Data Analysis Software enables the audit team to summarize and stratify data that help identify risk of fraud in financial statements. The following are just a few examples of fraud tests that can be performed with IDEA.

- Summarizing 100% of general ledger detail (as opposed to a sample) to identify unusual balances (i.e., High number of debits to sales or revenues, high number of credits to expense accounts).
- The ability to stratify samples among high- and low-dollar value populations for better audit coverage using IDEA scripts.
- Using IDEA pivot tables or scripts, we can perform analytical procedures using disaggregated data (e.g., revenue by month and by function during the current and prior reporting periods).
- The ability to extract information to uncover possible fraud (for example, the ability to search a vendor list to find similar names but different addresses could uncover potential fraud by an employee who has access to cash disbursements and maintains the vendor list for check payments).
- IDEA can help isolate debits and credits in an account or group of accounts to help facilitate more detailed analysis.

Considering the quality of the data being used in the procedure factoring whether we tested the data and the source of the data.

Obtaining audit evidence is a cumulative process. As a result, we recognize that a single SAP may not give us sufficient assurance that an amount is fairly stated. However, where we apply a series of SAPs to an amount stated in the financial statements and in each case our conclusion is that the procedure provides evidence that the amount is consistent with our expectations, then we have obtained a degree of assurance that the amount is validly stated.

**Overall Analytical Review** - assists us in assessing the conclusions reached and in the evaluation of the overall financial statement presentation. We use a wide variety of analytical procedures for this purpose. The overall review would generally include reading the financial statements and notes and considering the adequacy of evidence gathered in response to unusual or unexpected balances identified in planning the audit or in the course of the audit; and unusual or unexpected balances or relationships that were not previously identified.

Results of an overall review may indicate that additional evidence may be needed.

## MGO's Approach to Sampling

Audit sampling is the application of an audit procedure to less than 100% of the items within an account balance or class of transactions for the purpose of evaluating the value of the balance or class. Substantive test ("variables") sampling provides a technique for estimating the extent of monetary misstatement in a class of transactions or balances. It can also be used for estimating the amount of a population. It answers the question, "How much?" rather than "How many?" as in sampling for attributes (such as the operation of a control), and is normally used to help decide if a balance is materially misstated. Sampling can be very useful in performing substantive tests on, for example, inventory or accounts receivable. Sampling is sometimes also used for determining sample sizes for substantive tests of recorded transactions (e.g., employer and member contribution, administrative expenses).

MGO encourages the use of statistical sampling whenever practical, especially for substantive tests. We use two primary substantive statistical sampling techniques - PPS ("Probability Proportional to Size") sampling and SRS ("Stratified Random Sampling"). We generally first remove all individual items in excess of 90% of the tolerable misstatement from the population for 100% examination prior to selecting a sample, for both PPS and SRS samples.

In summary our sampling procedures include the following:

1. Define the Objective
2. Define the Population and the Sampling Unit
3. Define Tolerable Misstatement
4. Remove Items for 100% Examination
5. Specify the Desired Level of Sampling Assurance and the Acceptable Risk of Overauditing
6. Estimate the Expected (Anticipated) Misstatement
7. Select the Sampling Technique (e.g., non-statistical, PPS, SRS)
8. Determine the Sample Size
9. Select the Sample
10. Examine the Sample Items and Evaluate the Sample Result

## Robust and independent

Designing an efficient and effective integrated audit is dependent on an early and accurate risk assessment. Our approach focuses on significant hands-on involvement of our most experienced professionals to promote a strong understanding of the relevant financial statement and control risks. Further, our methodology incorporates a unique risk-based framework to help our engagement teams focus more audit effort in higher risk areas and less audit effort in the lower risk areas. In addition, MGO ensures full compliance with the auditing standards, and represents a robust, independent assessment of the financial statements.

## Benefits to you

The benefits from our methodology stem from our commitment to:

- Process efficiencies without sacrificing audit quality. We understand the importance of keeping the cost of our services affordable and our audit methodology has been specifically designed to provide your engagement team with the tools they need to perform a high quality audit in a cost effective manner.
- Integrated and ongoing audit process among all Groups with emphasis on internal controls. Financial statement and internal control testing is performed by the same individuals and our methodology is specifically designed to help plan and perform the integrated audit as a single audit, as opposed to separate and uncoordinated financial statement and internal control audits.

### Why MGO's approach is distinctive.

- **Technologically advanced.** MGO commits substantial “R&D” resources each year to develop and improve our audit methodology to equip your MGO engagement team with the latest technology possible. For example, our audit methodology employs proprietary audit programs and our audit workpapers are fully networked and encrypted. This allows multi-location engagement teams to collaborate in real time while maintaining our high standards of security and confidentiality of your data.
- **Effective communications.** Effective listening and regular, proactive two-way communication throughout our audit process is an essential cornerstone of our audit quality and superior client service. This focus on communication allows your MGO audit teams to gather information necessary to perform the audit and keep you up to date on the status of our services so that you can provide timely input and evaluate whether our services meet your high expectations.
- **Scalable.** Every entity we audit is unique, and obtaining a strong understanding of your operations is essential to tailoring our services to your entity’s unique risks and needs, and avoiding a “one size fits all” approach. Our audit methodology has been specifically designed to be flexible and scalable so that your engagement teams can incorporate its understanding of your entity and departments into the audit approach to appropriately size our efforts to your entity.
- **Early and Continuous Partner Involvement.** Our professional staff to partner ratio is lower than our major competitors, enabling more time for partners to be actively involved in the audit. Your assurance partners have considerable governmental and audit experience, and MGO believes the engagement partners should be actively involved throughout the audit process in hands-on manner. Our audit methodology has been specifically designed to facilitate this level of partner involvement.
- **Environmentally friendly.** Our networked electronic audit platform significantly reduces MGO’s carbon footprint by reducing travel, work paper storage and transportation costs.

### Law and order.

When planning and performing audit procedures and in evaluating and reporting the results thereof, we need to recognize that an illegal act may materially affect the financial statements. Laws and regulations vary considerably in their relation to the financial statements.

### The Auditor's Responsibility

Generally accepted auditing standards (GAAS) require that we design the audit to provide reasonable assurance that the financial statements are free of material misstatements resulting from violations of laws and regulations that have a direct and material effect on the determination of financial statement amounts. This involves identifying such laws and regulations and then assessing the risk that noncompliance may cause the financial statements to contain a material misstatement. We will consider such laws and regulations from the perspective of known relation to the financial statement assertions rather than from the perspective of legality per se.

Government Auditing Standards (the “Yellow Book”) prescribe additional fieldwork and reporting requirements beyond those in GAAS related to compliance. The additional fieldwork responsibilities are related to our communication during the audit, follow-up on known material findings and recommendations from previous audits, as well as working paper access and documentation. The Yellow Book further requires, among other things, that we report on the scope of our testing of compliance and present the results of those tests.

## **OCERS Responsibility**

Management has the responsibility for complying with all applicable laws and regulations and for identifying compliance requirements that have a direct and material effect on the determination of financial statement amounts. We will assess whether OCERS management has identified such compliance requirements, and we will obtain a representation from management regarding such compliance requirements.

## **Designing Compliance Tests**

Based on our identification of applicable legal compliance requirements, we will assess the risk of material misstatement of financial statement amounts, the level of management or employee involvement in the compliance assurance process, and the opportunity for concealment of instances of noncompliance by either management or employees. Audit procedures will be designed to address the risk and test compliance and will include the following:

- Inquire of management regarding the identification and monitoring of compliance requirements.
- Inquire of OCERS management as to any recent legislative decisions affecting employee benefit calculations, contributions or other matters.
- Review the minutes of the meetings of the Board of Retirement for any recent enactment of laws and regulations, recent court decisions or legal proceedings affecting the plan, or information about contracts and agreements that could have a direct and material effect on the determination of financial statement amounts.
- Review OCERS investment policy and relevant contracts and agreements with the custodian bank, investment managers, and general partners.

We also remain cognizant for any instances of noncompliance with laws or regulations at all times during the course of our audit that may come to our attention through:

- The performance of other substantive procedures;
- Review of the minutes of the governing bodies of OCERS; and
- Inquiry of OCERS and its lawyers regarding litigation, claims and assessments.

## **Indirect effect on financial statements.**

OCERS may be affected by many other laws or regulations, including those related to occupational safety and health, equal employment, and other violations. Generally, these laws and regulations relate more to an organization's operating aspects than to its financial and accounting aspects, and their financial statement effect is indirect. We ordinarily do not have sufficient basis for recognizing possible violations of such laws and regulations. Their indirect effect is normally the result of the need to disclose a contingent liability because of the allegation or determination of illegality.

Normally, our audit does not include procedures specifically designed to detect illegal acts that indirectly affect the financial statements. However, the procedures listed below, which may be performed for the purpose of forming an opinion on the financial statements, may bring possible illegal acts to our attention:

- Familiarization with the particular legal operational framework applicable to the client and its operations.
- Inquiring of management and the client's attorneys regarding the accounting for and disclosure of loss contingencies.
- Inquiring of management as to the laws and regulations that may be expected to have a fundamental impact on the operations of OCERS.
- Discussing with management policies and procedures adopted for identifying, evaluating, and accounting for litigation claims and assessments.
- Inspecting relevant documentation and correspondence with relevant licensing or regulatory authorities.
- Obtaining written confirmation from management that they have disclosed all events of which they are aware which involve possible illegal acts, together with any actual or contingent consequences which may arise.

We also remain cognizant for any instances of non-compliance with laws or regulations at all times during the course of our audit that may come to our attention through:

- The performance of other substantive procedures;
- The review of minutes of OCERS' Board meetings; and
- Inquiry of OCERS' legal counsel regarding litigation, claims, and assessments.

### **Use of Technology in the Audit.**

To ensure the most cost-effective and efficient audit for our clients, MGO has made a significant commitment to utilizing state-of-the-art technology in the audit process, including the ability for our team members to access the MGO network via the Internet, allowing team members to access audit documentation in real time.

The entire MGO Team is also equipped to perform an array of on-line research and other auditing procedures using:

- **PPC SMART Practice Aids** - identifies and assesses control risks during the audit planning process, resulting in an efficient audit approach tailored to our client's operations.
- **CaseWare Working Papers** - allows us to automate the working paper process quickly and efficiently. CaseWare Working Papers facilitates the download of the client's trial balance and journal entries, or any other types of electronic information needed to create an assortment of audit documentation and financial analysis.
- **IDEA** - microcomputer based, with mainframe and mid-range computer downloading capabilities, allowing our computer assisted audit techniques (CAATs) program to be executed at client premises.
- **CCH Accounting Research Manager** - online research tool providing direct access to all auditing and accounting and financial reporting pronouncements, including industry risk assessments and implementation assistance provided by the national standard setting bodies (AICPA, GASB, COSO, etc.).

# Labor-Hour Allocation.

We understand OCERS is looking for the value in the professional relationship they have with their auditors. Value comes from the knowledge, experience and dedication that the auditing firm employs. We have developed an hours plan that we feel will generally accomplish the objectives of OCERS and meet your special needs. Depending on the schedule of new processes and accounting standard implementation, hours may be adjusted for level of effort.

Estimated Hours by Segment	Orange County Employees Retirement System				
	Financial Statement Audit	OPEB (For Years with New Valuation or Implementation of GASB 74)	Total Financial Statement Audit	GASB 68	Total
<b>Planning and Execution of Test of Controls:</b>					
Engagement Partner	20	-	20	4	24
MGO Professional Standards Reviewer	-	-	-	-	-
Consulting Partner	2	-	2	2	4
Actuarial Consultant	-	-	-	-	-
IT Advisory Senior Manager	40	-	40	-	40
Engagement Manager	35	-	35	4	39
Supervisory Staff	50	-	50	6	56
Staff	60	-	60	-	60
Administrative Staff	-	-	-	-	-
<b>Total Planning and Interim Fieldwork</b>	<b>207</b>	<b>-</b>	<b>207</b>	<b>16</b>	<b>223</b>
<b>Execution of Substantive Tests:</b>					
Engagement Partner	25	1	26	2	28
MGO Professional Standards Reviewer	-	-	-	-	-
Consulting Partner	-	-	-	-	-
Actuarial Consultant	20	10	30	6	36
IT Advisory Senior Manager	-	-	-	-	-
Engagement Manager	40	2	42	8	50
Supervisory Staff	160	8	168	10	178
Staff	296	24	320	60	380
Administrative Staff	-	-	-	-	-
<b>Total Year-End Fieldwork</b>	<b>541</b>	<b>45</b>	<b>586</b>	<b>86</b>	<b>672</b>
<b>Completion:</b>					
Engagement Partner	20	1	21	6	27
MGO Professional Standards Reviewer	16	-	16	6	22
Consulting Partner	4	-	4	-	4
Actuarial Consultant	-	-	-	-	-
IT Advisory Senior Manager	-	-	-	-	-
Engagement Manager	20	1	21	8	29
Supervisory Staff	40	2	42	15	57
Staff	20	1	21	2	23
Administrative Staff	2	-	2	2	4
<b>Total Report Production/Board Presentations</b>	<b>122</b>	<b>5</b>	<b>127</b>	<b>39</b>	<b>166</b>
<b>Total Estimated Hours:</b>					
Engagement Partner	65	2	67	12	79
MGO Professional Standards Reviewer	16	-	16	6	22
Consulting Partner	6	-	6	2	8
Actuarial Consultant	20	10	30	6	36
IT Advisory Senior Manager	40	-	40	-	40
Engagement Manager	95	3	98	20	118
Supervisory Staff	250	10	260	31	291
Staff	376	25	401	62	463
Administrative Staff	2	-	2	2	4
<b>Grand Total</b>	<b>870</b>	<b>50</b>	<b>920</b>	<b>141</b>	<b>1,061</b>

## Approach to Time Requirements.

We recognize the importance of timely completion of audit tasks and deliverables. The timing of our audit procedures will be coordinated with the Finance Department and management of various departments to minimize disruption of OCERS' operations and ensure timely delivery of all reports by our published and statutory deadlines.

Government-related entities often depend on an elaborate structure of interlocking relationships for managing programs and resources. Our philosophy for a successful engagement is based on organization, communication, and coordination. We take coordination seriously and regard it as an integral factor to the relationship. We welcome OCERS' involvement in the planning process and believe that monitoring progress will result in timely financial reporting.

Timing	Activity & Objectives
<b>Planning</b>	
February 1, 2016	Prepared-By-Client Schedules
February 29, 2016	Audit Entrance Conference
Weeks of February 29 and March 7, 2016	Interim Fieldwork (planning, internal controls, IT internal controls)
April 11, 2016	Meeting with Audit Committee
<b>Execution</b>	
April 11, 2016 - May 6, 2016	On-site year end fieldwork
May 13, 2016	Exit conference
<b>Report Issuance</b>	
June 3, 2016	Independent Auditor's Report
June 3, 2016	Management Comments and Recommendations Letter
June 3, 2016	Communications with Those Charged with Governance
<b>Audit Committee and Board of Retirement Presentations</b>	
June 13, 2016	Present All Deliverables to Audit Committee
June 20, 2016	Present All Deliverables to Board of Retirement

SECTION 2-H

# Identification of Anticipated Potential Audit Problems

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of professional  
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# If it's critical for you, it's critical for us.

MGO is excited to once again earn OCERS' business. We believe communication to be the key factor to a successful relationship. Our approach includes planning meetings with key personnel and the audit committee to provide an opportunity to set expectations necessary to meet OCERS' deadlines. We develop timelines with key milestone dates that both OCERS and the auditors can use to manage those expectations. In addition, we are committed to scheduling periodic (e.g. weekly) status meetings with OCERS personnel and the engagement partner and manager to discuss progress and resolve issues. All members of the engagement team are committed to putting forth the necessary effort to meet expectations.

After reviewing the request for proposals, we do not anticipate any potential problems with OCERS' audit. If problems are to arise during the course of the engagement, we will immediately notify OCERS, and if requested, assist OCERS with finding a solution.

We do want to acknowledge that OCERS will be required to implement 2 new significant accounting and financial reporting standards during the next contract period:

- GASB Statement No. 72, Fair Value Measurement and Application – This Statement addresses accounting and financial reporting issues related to fair value measurements. The provisions of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. It also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. OCERS will be required to implement GASB 72 in the year ended December 31, 2016.
- GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans – Since OCERS reports on the OPEB plan for the Orange County Fire Authority, OCERS will have to consider the reporting requirements of GASB 74. Similar to the requirements of GASB 67 related to pension benefits, GASB 74, will improve financial reporting of primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet the specified criteria. The new information will enhance the decision-usefulness of the financial reports of those OPEB plans, their value for assessing accountability, and their transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. The net OPEB liability information, including ratios, will offer an up-to-date indication of the extent to which the total OPEB liability is covered by the fiduciary net position of the OPEB plan. The comparability of the reported information

for similar types of OPEB plans will be improved by the changes related to the attribution method used to determine the total OPEB liability. The contribution schedule will provide measures to evaluate decisions related to the assessment of contribution rates in comparison with actuarially determined rates, if such rates are determined. In addition, new information about rates of return on OPEB plan investments will inform financial report users about the effects of market conditions on the OPEB plan's assets over time and provide information for users to assess the relative success of the OPEB plan's investment strategy and the relative contribution that investment earnings provide to the OPEB plan's ability to pay benefits to plan members when they come due.

SECTION 2-I

# Report Format

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## Independent Auditor's Report

To the Board of Retirement of the  
Orange County Employees Retirement System  
Santa Ana, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Orange County Employees Retirement System (the System), California, as of and for the year ended December 31, 201X, and the related notes to the financial statements which collectively comprise the System's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Orange County Employees Retirement System, California, as of December 31, 201X, and the changes in fiduciary net position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Emphasis of Matters

As discussed in Note XX to the basic financial statements, the System implemented the provisions of Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans- an Amendment of GASB Statement No. 25*, for the year ended December 31, 201X.

As discussed in Note XX, based on the actuarial valuation of the pension plan as of December 31, 201X rolled forward to December 31, 201X, the total pension liability of participating employers exceeded the pension plan's fiduciary net position by \$XX billion. The actuarial valuation is very sensitive to the underlying assumptions, including a discount rate of XX percent, which represents the long-term expected rate of return.

As described in Note XX, based on the most recent actuarial valuation of the Orange County Fire Authority (the Authority) health care plan as of July 1, 201X, the Authority's independent actuary determined that the actuarial accrued liability exceeded the actuarial value of its assets by \$XX million.

Our opinion is not modified with respect to these matters.

## Other Matters

### *Prior-Year Comparative Information*

The financial statements include partial prior-year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended December 31, 2013, from which such partial information was derived.

We have previously audited the System's 201X financial statements, and we expressed an unmodified audit opinion on the financial statements in our report DATE 201X. In our opinion, the partial comparative information presented herein as of and for the year ended December 31, 201X, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the Schedule of Changes in Net Pension Liability of Participating Employers, Schedule of Investment Returns, Schedule of Employer Contributions, Schedule of Funding Progress – OPEB Orange County Fire Authority and the Schedule of Employer Contributions – OPEB Orange County Fire Authority, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards

generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The other supplemental information, introductory, investment, actuarial and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report DATE, 201X on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Sacramento, California  
DATE 201X

**Independent Auditor's Report On Internal Control  
Over Financial Reporting And On Compliance  
And Other Matters Based On  
An Audit Of Financial Statements Performed  
In Accordance With *Government Auditing Standards***

To the Board of Retirement of the  
Orange County Employees Retirement System  
Santa Ana, California

We have audited, in accordance with the 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, the financial statements of the Orange County Employees Retirement System (the System) as of and for the year ended December 31, 201X and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated DATE, 201X. Our report contained an emphasis-of-matter paragraph that describes the System's adoption of the provisions of Governmental Accounting Standards Board Statement No.67, *Financial Reporting for Pension Plans- an Amendment of GASB Statement No. 25*, during the year ended December 31, 201X. Our report also contained emphasis-of-matter paragraphs that describe the employer's net pension liability as of December 31, 201X, and the actuarial funded status of the Orange County Fire Authority health care plan as of DATE, 201X, respectively.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Newport Beach, California  
DATE, 201X

SAMPLE

**ORANGE COUNTY EMPLOYEES  
RETIREMENT SYSTEM**

**Report to the Audit Committee**

**For the Year Ended December 31, 201X**

SAMPLE

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**Report to the Audit Committee**

**For the Year Ended December 31, 201X**

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SAMPLE

To the Audit Committee of the  
Orange County Employees Retirement System  
Santa Ana, California

In planning and performing our audit of the financial statements of the Orange County Employees Retirement System (the System) as of and for the year ended December 31, 201X, in accordance with auditing standards generally accepted in the United States of America, we considered the System's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances 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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

We have included in this letter a report on communications with the Audit Committee as required by auditing standards generally accepted in the United States of America. In addition, the status of the prior year observation is included in the Status of Prior Year Comments and Recommendations section of this report.

We would like to thank the System's management and staff for the courtesy and cooperation extended to us during the course of our engagement.

This information is intended solely for the use of the Audit Committee, Board of Retirement and management of the System and is not intended to be and should not be used by anyone other than these specified parties.

Newport Beach, California  
[DATE XX]

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

Report to the Audit Committee  
Required Communications  
For the Year Ended December 31, 201X

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our meeting with the Audit Committee on DATE XX. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Findings*****Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the System are described in Note XX to the financial statements. As discussed in Note XX to the basic financial statements, the System adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25* for the year ended December 31, 201X. We noted no transactions entered into by the System during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Actuarial valuations of the total pension liability and actuarially determined contributions for the Defined Benefit Pension Plan.
- Actuarial valuations of other postemployment benefit assets, liabilities and annual required contributions for the Orange County Fire Authority Health Care Plan.
- Fair value of real estate, private equity, real return, absolute return and diversified credit investments and related income.

The actuarial pension data contained in Note XX to the financial statements and required supplementary information is based on actuarial calculations performed by the System's actuary in accordance with the parameters set forth in GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. The actuarial pension valuation is very sensitive to the underlying assumptions, including the discount rate. The actuarial data for the Orange County Fire Authority (the Authority) health care plan contained in Note XX to the financial statements and required supplementary information is based on actuarial calculations performed by the Authority's independent actuary in accordance with the parameters set forth in GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The fair value methodologies for investments for which quoted market prices are not available are described in Note 2 to the financial statements. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

## ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

Report to the Audit Committee  
Required Communications  
For the Year Ended December 31, 201X

### ***Qualitative Aspects of Accounting Practices (Continued)***

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Participating employers' net pension liability, which is based on the total pension liability determined in the actuarial valuation as of December 31, 201X, and rolled forward to December 31, 201X.
- The schedule of funded status for the Orange County Fire Authority Health Care Plan as of DATE, 201X, the most recent actuarial valuation.

As described in Note XX and XX to the financial statements, the actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and these amounts and assumptions are subject to continual revision as actual results are compared to past expectations.

The financial statement disclosures are neutral, consistent, and clear.

### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### ***Disagreements with Management***

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated DATE, 201X

### ***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

Report to the Audit Committee

Required Communications

For the Year Ended December 31, 201X

***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as the System's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

***Other Matters***

We applied certain limited procedures to management's discussion and analysis, the Schedule of Changes in Net Pension Liability of Participating Employers, Schedule of Investment Returns, the Schedule of Employer Contributions – Pension Plan, Schedule of Funding Progress – OPEB Orange County Fire Authority, the Schedule of Employer Contributions – OPEB Orange County Fire Authority and the Significant Factors Affecting Trends in Actuarial Information, as listed in the table of contents, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on other supplemental information, which accompanies the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory, investment, actuarial and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

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## SECTION 3

# Fees and Hour Rates

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A new breed  
of professional  
services firm

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SECTION 3-J-L

# Total All-Inclusive Maximum Price

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A new breed  
of professional  
services firm

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## **Cost Approach.**

MGO maintains a high degree of flexibility in our audit plan, modifying it annually as your organization risks change or new System-requested or regulatory requirements are added. As residents of the County of Orange, we believe that we always look for the most cost effective alternatives and we are able to provide quality audits that are both flexible and cost efficient. What you get from working with MGO is more than just an audit of your financial statements. OCERS will be regarded as one of our premier clients and receive direct attention from our most senior and experienced professionals.

### WITH US, YOU DEAL WITH DECISION MAKERS.

Our senior engagement managers are hands-on in the field. Your engagement partners, directors and managers are regularly on-site with your team to ensure that issues are dealt with and decisions are made on a real-time basis to avoid unnecessary delays.

### DEPTH AND BREADTH OF TALENT.

We're prepared for any emergency. We have the bench strength to provide additional team members with minimal lead-time to help ensure that unforeseen events do not delay the financial reporting process. We have immediate access to firm and industry experts to resolve technical issues.

## **Professional Fee Philosophy.**

Our fee philosophy is to foster long-term client relationships by offering fair and competitive pricing. As a result, we are sensitive to OCERS' need to control costs. It is our commitment to offer quality service at competitive and fair rates. Our proposed not-to-exceed fees and estimated hours to provide audit services for OCERS for the years ending December 31, 2015, 2016, 2017, 2018 and 2019, with an anticipated period of one-year option at OCERS' election for the fiscal year ending December 31, 2020 are included on the following pages.

The proposed fees are based on the assumption that there will not be any major changes in scope, which includes new accounting or auditing standards and legal or regulatory requirements, that are not foreseeable at this time; therefore, the impacts cannot be determined. If the scope of the audit is expanded, our fees may be adjusted accordingly.

Below is a summary of our proposed fees:

Year End	Financial Statements	GASB 68	Out-of-Pocket Expenses	Total
2015	\$ 110,752.00 <sup>1</sup>	\$ 18,146.00	\$ -	\$ 128,898.00
2016	\$ 126,805.00 <sup>2,3</sup>	\$ 18,494.00	\$ -	\$ 145,299.00
2017	\$ 127,920.00 <sup>4</sup>	\$ 18,842.00	\$ -	\$ 146,762.00
2018	\$ 119,211.00	\$ 19,190.00	\$ -	\$ 138,401.00
2019	\$ 121,434.00	\$ 19,538.00	\$ -	\$ 140,972.00
2020	\$ 123,746.00	\$ 19,906.00	\$ -	\$ 143,652.00

<sup>1</sup> Includes consideration of V3 implementation.

<sup>2</sup> Includes consideration of OCFA OPEB valuation under GASB 43

<sup>3</sup> Includes consideration of GASB 72 implementation

<sup>4</sup> Includes consideration of GASB 74 implementation related to OCFA

Our fee proposal considers the following:

- 2015 – We understand that OCERS will implement the new V3 benefits system in December 2015. We have included a provision for hours to consider the implementation of V3 the impact on the financial statements, include internal controls over this application.
- 2016 – OCERS will be required to implement the provisions of GASB 72, Fair Value Measurement and Application, which will require OCERS to consider the accepted valuation techniques for its investment outlined in the GASB 72 and revised its investment disclosures. We have included a provision for hours to consider changes in OCERS' valuation techniques and review of the revised disclosures.
- 2016 - OCERS has agreed to the responsibility of the reporting the OPEB Plan of the Orange County Fire Authority (OCFA). Actuarial valuations are obtained every other year thus we have included a provision for hours to consider the results of those valuations, testing of census data and reporting.
- 2017 – As noted above, OCERS is responsible for reporting the OPEB Plan of OCFA. In 2017, OCERS will need to consider the provisions of GASB 74, the new OPEB standards, thus we have included a provision for hours to consider the actuarial valuation, financial reporting presentation, and revised disclosures and requirement supplementary information.

Additionally, our proposed not-to-exceed fees and hours are also based on the assumption that the accounting records are in order and that all accrual adjustments necessary to present the financial statements in accordance with accounting principles generally accepted in the United States of America are completed by OCERS. If we encounter difficulties because accounting records are not readily available, material weaknesses in internal control are identified, or other problems arise, we will meet with responsible OCERS officials to discuss a potential fee adjustment and to discuss the problems encountered before any additional work is incurred.

As a Partner, I am authorized to represent the firm, empowered to submit the bid, and authorized to sign a contract with OCERS. If you have any questions, or if we can be of assistance to you in any way during the selection process, I can be reached at [lhurst@mgocpa.com](mailto:lhurst@mgocpa.com) or (949) 296-4340.



**Linda C. Hurley**

Partner

4675 MacArthur Court  
Suite 600  
Newport Beach, CA 92660

**Appendix C - December 31, 2015*****Schedule of Professional Fees and Expenses  
For the Audit of OCERS***

Staff	Hours **	<b>Financial Statement Audit</b>		Quoted Hourly Rate	Total
		Standard Hourly Rate			
Partners	87.00	\$ 395.00	\$ 257.00	\$ 22,359.00	
Managers	95.00	210.00	137.00	13,015.00	
Supervisory Staff	250.00	150.00	98.00	24,500.00	
Staff	396.00	130.00	85.00	33,660.00	
Other (specify):					
Actuarial Consultant	20.00	310.00	310.00	6,200.00	
IT Advisory Senior Manager	60.00	280.00	182.00	10,920.00	
Administrative Staff	2.00	75.00	49.00	98.00	
<b>Subtotal</b>				<b>\$ 110,752.00</b>	

Staff	Hours	<b>GASB 68 Audit</b>		Quoted Hourly Rate	Total
		Standard Hourly Rate			
Partners	20.00	\$ 395.00	\$ 257.00	\$ 5,140.00	
Managers	20.00	210.00	137.00	2,740.00	
Supervisory Staff	31.00	150.00	98.00	3,038.00	
Staff	62.00	130.00	85.00	5,270.00	
Other (specify):					
Actuarial Consultant	6.00	310.00	310.00	1,860.00	
IT Advisory Senior Manager	-	280.00	182.00	-	
Administrative Staff	2.00	75.00	49.00	98.00	
<b>Subtotal</b>				<b>\$ 18,146.00</b>	

**Out-of-Pocket Expenses:**

Meals and Lodging	\$	-
Transportation		-
Other (Specify)		-

<b>Subtotal Out-of-Pocket Expenses:</b>	\$	-
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<b>Total All-Inclusive Maximum Price For Audit</b>	\$	<b>128,898.00</b>
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**\*\* Hours include provision for consideration of V3 implementation.**

**Appendix C - December 31, 2016*****Schedule of Professional Fees and Expenses  
For the Audit of OCERS***

Staff	Financial Statement Audit		Quoted Hourly Rate	Total
	Hours**	Standard Hourly Rate		
Partners	109.00	\$ 395.00	\$ 262.00	\$ 28,558.00
Managers	118.00	210.00	140.00	16,520.00
Supervisory Staff	300.00	150.00	100.00	30,000.00
Staff	401.00	130.00	87.00	34,887.00
Other (specify):				
Actuarial Consultant	30.00	310.00	310.00	9,300.00
IT Advisory Senior Manager	40.00	280.00	186.00	7,440.00
Administrative Staff	2.00	75.00	50.00	100.00
Subtotal				\$ 126,805.00
GASB 68 Audit				
Staff	Hours	Standard Hourly Rate	Quoted Hourly Rate	Total
Partners	20.00	\$ 395.00	\$ 262.00	\$ 5,240.00
Managers	20.00	210.00	140.00	2,800.00
Supervisory Staff	31.00	150.00	100.00	3,100.00
Staff	62.00	130.00	87.00	5,394.00
Other (specify):				
Actuarial Consultant	6.00	310.00	310.00	1,860.00
IT Advisory Senior Manager	-	280.00	186.00	-
Administrative Staff	2.00	75.00	50.00	100.00
Subtotal				\$ 18,494.00
Out-of-Pocket Expenses:				
Meals and Lodging			\$ -	
Transportation			-	
Other (Specify)			-	
Subtotal Out-of-Pocket Expenses:			\$ -	
Total All-Inclusive Maximum Price For Audit			\$ 145,299.00	

**\*\* Hours include provision GASB 72 implementation and GASB 43 procedures related to OCFA.**

**Appendix C - December 31, 2017*****Schedule of Professional Fees and Expenses  
For the Audit of OCERS***

Staff	<b>Financial Statement Audit</b>			Quoted Hourly Rate	Total
	Hours**	Standard Hourly Rate			
Partners	107.00	\$ 395.00		\$ 267.00	\$ 28,569.00
Managers	135.00	210.00		143.00	19,305.00
Supervisory Staff	290.00	150.00		102.00	29,580.00
Staff	376.00	130.00		89.00	33,464.00
Other (specify):					
Actuarial Consultant	30.00	310.00		310.00	9,300.00
IT Advisory Senior Manager	40.00	280.00		190.00	7,600.00
Administrative Staff	2.00	75.00		51.00	102.00
<b>Subtotal</b>					<b>\$ 127,920.00</b>
<b>GASB 68 Audit</b>					
Staff	Standard Hourly Rate			Quoted Hourly Rate	Total
	Hours				
Partners	20.00	\$ 395.00		\$ 267.00	\$ 5,340.00
Managers	20.00	210.00		143.00	2,860.00
Supervisory Staff	31.00	150.00		102.00	3,162.00
Staff	62.00	130.00		89.00	5,518.00
Other (specify):					
Actuarial Consultant	6.00	310.00		310.00	1,860.00
IT Advisory Senior Manager	-	280.00		190.00	-
Administrative Staff	2.00	75.00		51.00	102.00
<b>Subtotal</b>					<b>\$ 18,842.00</b>
<b>Out-of-Pocket Expenses:</b>					
Meals and Lodging			\$	-	
Transportation				-	
Other (Specify)				-	
<b>Subtotal Out-of-Pocket Expenses:</b>			\$	-	
<b>Total All-Inclusive Maximum Price For Audit</b>			\$	<b>146,762.00</b>	

**\*\* Hours include provision GASB 74 related to OCFA.**

**Appendix C - December 31, 2018*****Schedule of Professional Fees and Expenses  
For the Audit of OCERS***

Staff	<b>Financial Statement Audit</b>			Quoted Hourly Rate	Total
	Hours	Standard Hourly Rate			
Partners	89.00	\$ 395.00		\$ 272.00	\$ 24,208.00
Managers	98.00	210.00		146.00	14,308.00
Supervisory Staff	260.00	150.00		104.00	27,040.00
Staff	401.00	130.00		91.00	36,491.00
Other (specify):					
Actuarial Consultant	30.00	310.00		310.00	9,300.00
IT Advisory Senior Manager	40.00	280.00		194.00	7,760.00
Administrative Staff	2.00	75.00		52.00	104.00
Subtotal					<u>\$ 119,211.00</u>
Staff	<b>GASB 68 Audit</b>			Quoted Hourly Rate	Total
	Hours	Standard Hourly Rate			
Partners	20.00	\$ 395.00		\$ 272.00	\$ 5,440.00
Managers	20.00	210.00		146.00	2,920.00
Supervisory Staff	31.00	150.00		104.00	3,224.00
Staff	62.00	130.00		91.00	5,642.00
Other (specify):					
Actuarial Consultant	6.00	310.00		310.00	1,860.00
IT Advisory Senior Manager	-	280.00		194.00	-
Administrative Staff	2.00	75.00		52.00	104.00
Subtotal					<u>\$ 19,190.00</u>
Out-of-Pocket Expenses:					
Meals and Lodging			\$	-	
Transportation				-	
Other (Specify)				-	
Subtotal Out-of-Pocket Expenses:			\$	-	
Total All-Inclusive Maximum Price For Audit			\$	138,401.00	

**Appendix C - December 31, 2019*****Schedule of Professional Fees and Expenses  
For the Audit of OCERS***

Staff	<b>Financial Statement Audit</b>			Quoted Hourly Rate	Total
	Hours	Standard Hourly Rate			
Partners	89.00	\$ 395.00		\$ 277.00	\$ 24,653.00
Managers	98.00	210.00		149.00	14,602.00
Supervisory Staff	260.00	150.00		106.00	27,560.00
Staff	401.00	130.00		93.00	37,293.00
Other (specify):					
Actuarial Consultant	30.00	310.00		310.00	9,300.00
IT Advisory Senior Manager	40.00	280.00		198.00	7,920.00
Administrative Staff	2.00	75.00		53.00	106.00
Subtotal					<u>\$ 121,434.00</u>
Staff	<b>GASB 68 Audit</b>			Quoted Hourly Rate	Total
	Hours	Standard Hourly Rate			
Partners	20.00	\$ 395.00		\$ 277.00	\$ 5,540.00
Managers	20.00	210.00		149.00	2,980.00
Supervisory Staff	31.00	150.00		106.00	3,286.00
Staff	62.00	130.00		93.00	5,766.00
Other (specify):					
Actuarial Consultant	6.00	310.00		310.00	1,860.00
IT Advisory Senior Manager	-	280.00		198.00	-
Administrative Staff	2.00	75.00		53.00	106.00
Subtotal					<u>\$ 19,538.00</u>
Out-of-Pocket Expenses:					
Meals and Lodging			\$	-	
Transportation				-	
Other (Specify)				-	
Subtotal Out-of-Pocket Expenses:			\$	-	
Total All-Inclusive Maximum Price For Audit			\$	140,972.00	

**Appendix C - December 31, 2020 (Optional)*****Schedule of Professional Fees and Expenses  
For the Audit of OCERS***

Staff	Hours	<b>Financial Statement Audit</b>		Quoted Hourly Rate	Total
		Standard Hourly Rate			
Partners	89.00	\$ 395.00	\$ 283.00	\$ 25,187.00	
Managers	98.00	210.00	152.00	14,896.00	
Supervisory Staff	260.00	150.00	108.00	28,080.00	
Staff	401.00	130.00	95.00	38,095.00	
Other (specify):					
Actuarial Consultant	30.00	310.00	310.00	9,300.00	
IT Advisory Senior Manager	40.00	280.00	202.00	8,080.00	
Administrative Staff	2.00	75.00	54.00	108.00	
<b>Subtotal</b>				<b>\$ 123,746.00</b>	

Staff	Hours	<b>GASB 68 Audit</b>		Quoted Hourly Rate	Total
		Standard Hourly Rate			
Partners	20.00	\$ 395.00	\$ 283.00	\$ 5,660.00	
Managers	20.00	210.00	152.00	3,040.00	
Supervisory Staff	31.00	150.00	108.00	3,348.00	
Staff	62.00	130.00	95.00	5,890.00	
Other (specify):					
Actuarial Consultant	6.00	310.00	310.00	1,860.00	
IT Advisory Senior Manager	-	280.00	202.00	-	
Administrative Staff	2.00	75.00	54.00	108.00	
<b>Subtotal</b>				<b>\$ 19,906.00</b>	

**Out-of-Pocket Expenses:**

Meals and Lodging	\$	-
Transporation		-
Other (Specify)		-
<b>Subtotal Out-of-Pocket Expenses:</b>	<b>\$</b>	<b>-</b>
<b>Total All-Inclusive Maximum Price For Audit</b>	<b>\$</b>	<b>143,652.00</b>

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# Questions?

**The West Coast is our home.**

WE HAVE CHEERFUL OFFICES THROUGHOUT CALIFORNIA.

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Suite 300  
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California 95816  
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**mgo**  
TYPE ATYPICAL

A new breed  
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*A quality audit will help protect the assets and the financial integrity of your employee benefit plan and ensure that the necessary funds will be available to pay retirement, health, and other promised benefits to your employees.*

*A quality audit also will help you carry out your legal responsibility to file a complete and accurate annual return/report for your plan each year.*

*Because an incomplete, inadequate, or untimely audit report may result in penalties being assessed against you as the plan's administrator, selection of an experienced and reliable auditor is very important.*



"Selecting An Auditor For Your Employee Benefit Plan"  
U.S. Department of Labor  
<http://www.dol.gov/ebsa/publications/selectinganauditor.html>

**The Orange County Employees  
Retirement System  
November 13, 2015**



**Mayer Hoffmann McCann P.C.  
An Independent CPA Firm**

5060 California Avenue, Suite 800  
Bakersfield, California, 93309  
661-325-7500 ph  
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November 13, 2015

Ms. Brenda Vazquez  
Secretary II  
Orange County Employees Retirement System  
2223 East Wellington Avenue, Suite 100  
Santa Ana, CA 92701-3161

Re: Proposal for Annual Audits of the Financial Statements of Orange County Employees Retirement System

Dear Ms. Vazquez:

Thank you for allowing Mayer Hoffmann McCann P.C. (MHM) to submit our proposal for providing professional services to the Orange County Employees Retirement System (OCERS). This proposal has been prepared to demonstrate our commitment to a relationship with OCERS as well as our in-depth resources and experience in employee benefit audit services.

Jennifer Haney, CPA, an MHM shareholder located in the Bakersfield office, will serve as the Engagement Shareholder and is authorized to represent and bind the firm upon entering a contract with OCERS.

MHM, an independently owned and operated CPA firm, will provide the audit services. MHM is proud to offer OCERS the added value of extensive national resources available through our Employee Benefit Plan Audit Group. We understand that OCERS is a large and complex pension system that was created under the County Employees Retirement Law of 1937, California Government Code Section 31450 et seq. As such, MHM understands that the audit will be performed in accordance with Generally Accepted Government Auditing Standards and the State of California Office of the Controller Minimum Audit Requirements and Reporting Guidelines for Public Retirement Systems. We believe the attached proposal which highlights our strengths, resources, depth of experience on a National level and commitment to excellence, demonstrates that we are best qualified to serve OCERS as its auditor.

MHM has built a very successful practice providing timely, quality auditing services to employee benefit plans. You can expect an audit by us to be thorough and precise, as we continually test our audit procedures with the evolving requirements of employee benefit plans. Additionally, we are a member of the American Institute of Certified Public Accountants' (AICPA's) Employee Benefit Plan Audit Quality Center and Government Audit Quality Center.

It is the policy of our firm that all professional personnel be familiar with and adhere to the independence, integrity, and objectivity rules, regulations, interpretations, and rulings of the AICPA, the State Board of Accountancy in which one is licensed, the State CPA Society in which one belongs, state statutes, and other regulatory agencies, including the Comptroller General of the United States and the DOL, where applicable. Furthermore, it is the policy of this firm that, for

Cover Letter  
Orange County Employees Retirement System  
Page 2

engagements that are subject to the rules of the Securities and Exchange Commission (SEC), all professional personnel be familiar with and adhere to the independence rules of the SEC and Public Company Accounting Oversight Board (PCAOB). The most stringent rules that apply to a given situation are adhered to.

Thank you for the privilege of presenting this proposal. We are confident that we can exceed your expectations by providing immediate and ongoing support with qualified professionals. We have a focused and purposeful pension audit practice, grown by design, which serves as one of our core practice areas. We would take pride in performing an audit for OCERS to the level and degree of professionalism expected and to the standard of quality OCERS deserves. This proposal is an irrevocable offer and will remain in effect for 120 days from the date of this letter. If you have any questions please contact Jennifer Haney, Engagement Shareholder.

Very truly yours,  
Mayer Hoffman McCann P.C.



---

Jennifer Haney, CPA  
Shareholder

Contact Information:

Jennifer:  
Phone: (661) 325-7500  
Fax: (661) 325-7004  
Email: JHaney@CBIZ.com

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## UNDERSTANDING YOUR NEEDS

Mayer Hoffman McCann P.C. (MHM) wants to be your business partner. As a valued client we will provide the highest quality resources to fulfill your management and operational needs, allowing you to focus on your core business.

 RETIREMENT SYSTEM	 Mayer Hoffman McCann P.C. <small>An Independent CPA Firm</small>
Your Needs	Our Ability to Perform
Experienced Team to Perform Employee Benefit Plan Audits	Nationally, MHM performs approximately 1,000 audits of employee benefit plans. We will utilize our Employee Benefit Plan Audit Team in our Bakersfield and Kansas City offices.
Accountability	MHM was the fifth firm to join the American Institute of Certified Public Accountants' Employee Benefit Plan Audit Quality Center. This means we must meet the more stringent quality standards required of CPA firms auditing employee benefit plans.
Dedicated / Specialized Employee Benefit Plan Audit Professionals	The engagement will be managed from our Southern California offices. The Engagement team will include Hal Hunt who is one of the leaders of our National Employee Benefit Plan Task Force. Hal will be the Quality Reviewer for this Engagement.
Responsiveness	As a valued client, when you make a request of MHM it will be met with the attention and timeliness it deserves. We are committed to responding to your requests immediately.
Year-Round Service Approach	We will make sure that we are communicating throughout the year to understand any issues or questions regarding your employee benefit plans and allow you to make business decisions accordingly.
Commitment	We will work closely with you throughout the engagement to ensure the success of each audit and your complete satisfaction.

# **ABOUT MAYER HOFFMAN McCANN P.C.**

## **BACKGROUND**

Mayer Hoffman McCann P.C. (MHM) is an independent public accounting firm specializing in high quality attest and accounting services, including audits, reviews and compilations.

## **ORGANIZATION**

MHM is a corporation that is owned by the CPA Shareholders from all of its offices. MHM has a Board of Directors and various committees that provide oversight and ensure quality and technical expertise.

MHM has been performing financial statement audits for over 50 years since its inception in 1954; and has been performing audits for Defined Benefit Pension plans for at least thirty years since the 1980's. Our national presence provides our clients with stability and access to extensive resources – all with first-rate responsiveness and personal attention.

Financial statement audits are the most significant service that MHM provides its clients. It is our priority to provide quality, timely, and efficient audits to our clients. MHM's financial statement audit services provide approximately 81% of MHM's total revenue.

MHM currently operates from 34 offices throughout the U.S. and is licensed in all 50 states. Approximately 435 of our professionals are Certified Public Accountants. MHM's professionals have diverse backgrounds and areas of expertise. Depending on the professional's area of expertise, MHM has certain continuing education requirements. All licensed CPA's must comply with the State Board of Accountancy CPE requirements in the state(s) in which they are licensed. For those professionals who perform Government and Pension Plan audits, there are minimum standards of continuing education that must be maintained in order to continue to practice in these specified areas. The Government CPE requirements follow the Yellow Book requirements for continuing education. For the Pension Plan audits, all shareholders signing

## **ORGANIZATION (CONTINUED)**

audit reports, an individual managing audit engagements, and the pre-issue reviewer or concurring SEC reviewer of Pension Plan audits must comply with the following CPE requirements of AICPA's Employee Benefit Plan Audit Quality Center:

- a. Initially, complete a minimum of 8 hours of employee benefit plan-specific CPE within the first three year period designated by the Firm.
- b. Thereafter, the same individuals in the Pension Plan Requirement above must have a minimum of 8 hours of employee benefit plan-specific CPE every three years, before assuming responsibility as the signing shareholder, manager or pre-issue reviewer or concurring SEC reviewer for employee benefit plan audits.

MHM has approximately 245 professionals that staff our pension and Employee Benefit Plan audits. As part of a national firm that is affiliated with various companies through CBIZ, MHM has access to a very distinguished Wealth Management group that could assist the OCERS audit team in completing audit procedures and drafting related disclosures for Investments. Additionally, through CBIZ, the audit team will have access to the expertise and talent of our actuarial group who could assist us with the review of the actuarial reports prepared by OCERS's actuaries.

MHM has the following resources to assist OCERS in obtaining prompt resolutions of technical or procedural questions developed in the course of the engagement:

Hal Hunt, Shareholder in MHM's Kansas City office has been our liaison with the Department of Labor (DOL) in assisting the DOL in establishing audit guidelines for Employee Benefit Plan audits. He was primarily responsible for MHM being one of the original members of the AICPA's Employee Benefit Plan Audit Quality Center. He was responsible for establishing quality control standards for MHM's Employee Benefit Plan audits that were acceptable to the DOL.

## **ORGANIZATION (CONTINUED)**

MHM also emphasizes early and proactive consultation by the engagement team. To reinforce this policy, MHM has created our Professional Standards Group. Headed by James Comito, the role of this group is to provide professional advice to all engagement teams within the MHM universe. Here is a passage from our Professional Standards Group documents

*"Consultation Yields Assurance ... **Consult Early and Consult Often.** Early identification enables us to get the right answer to the client in a timely manner. It is all of our responsibility to manage the risk. The worst decision you can make is the one you make alone."*

## **ABILITY TO PROVIDE ADDITIONAL PERSONNEL**

Our philosophy of using highly experienced personnel allows us to perform extremely efficiently and enables us to provide unmatched quality. In addition to our local resources, as a national accounting firm, Mayer Hoffman McCann has a unique ability to draw on our network of experienced professionals including MHM offices in Salt Lake City, Utah; Phoenix, Arizona; Denver, Colorado; Kansas City, Missouri; totaling over 30 offices throughout the country.

**Frank T. Vedegys, F.S.A., E.A., MAAA, (Frank):** Actuarial Consultant and Advisor. Frank is a Senior Actuarial Consultant with CBIZ. Frank is recognized for his expertise in applying current statistical methodology to problems in insurance and employee benefits. He helped develop unique and innovative statistical health care models for many companies including, TRW and Parker Hannifin. He has a comprehensive group insurance background, with a special focus on plan design, product development, stochastic models, IBNR claim reserves, forecasting, and financial reporting. Frank will assist the engagement team by reviewing the actuarial report prepared by OCERS's actuarial consultant.

Frank holds a Masters of Science Degree in Applied Statistics from Florida State University. Frank is an Enrolled Actuary, a Fellow in the Society of Actuaries, and a Member of the American Academy of Actuaries. Frank has over 20 years of experience with both pension and

## **ABILITY TO PROVIDE ADDITIONAL PERSONNEL (CONTINUED)**

health care post-retirement benefits, with actuarial firms such as Towers Perrin, KPMG and Hewitt Associates. Frank is also a member of the Enrolled Actuaries Exam Committee.

**Linda Atkinson, MAI, CCIM (Linda)** – Linda is a Director with the CBIZ Valuation Group's Real Estate practice. Linda will be available to the audit team to provide technical and advisory assistance in regards to the OCERS real estate investments. She will be able to assist with reviewing the Fair Value calculations and assumptions used by the Real Estate Investment managers for fair presentation within the financial statements.

Linda has over 25 years of diversified experience focusing on real estate consulting and valuation analysis. Her valuation and consulting expertise spans most property types including office, retail, multifamily, industrial and lodging as well as many special use properties such as ranches, health facilities and education facilities. She has completed engagements for various purposes including estate and gift tax planning, property acquisition and disposition, property tax, litigation, condemnation, financing, purchase price allocation for tax and financial reporting, and internal business planning. These projects span the United States, Puerto Rico, Europe and Canada. Linda has significant expertise in managing large multi-location valuation projects that involved all valuation disciplines. Linda also has extensive experience in providing expert witness testimony.

Prior to joining CBIZ Valuation Group, Linda was with LandAmerica Financial Group, Inc. where she directed the commercial real estate consulting and valuation operations in the St. Louis office of LandAmerica Valuation Corporation. She has held similar positions with both Arthur Andersen LLP and Marshall & Stevens, Inc. While employed by Arthur Andersen LLP, Linda's focus was the management of large scale multi-location and multi-discipline valuation projects.

Linda is a Member of the Appraisal Institute and holds the MAI designation awarded by the Appraisal Institute. Linda is a former member of the General Demonstration Reports

## **ABILITY TO PROVIDE ADDITIONAL PERSONNEL (CONTINUED)**

Subcommittee at the national level of the Appraisal Institute and is a national grader of demonstration reports. She is certified as a General Real Estate Appraiser in Missouri and Illinois and is fully qualified to perform appraisal work in the remaining 48 states through the issuance of temporary appraisal permits, where required by law. Linda holds the CCIM (Certified Commercial Investment Member) designation awarded by the CCIM. Linda graduated with a bachelor of business administration in accounting and finance from Southern Illinois University. She has also attended numerous appraisal and real estate investment courses sponsored by the Appraisal Institute, The Society of Real Estate Appraisers, Commercial Investment Real Estate Institute, International Association of Assessing Offices and others.

## **FIRM'S EXPERIENCE IN PROVIDING SIMILAR SERVICES**

The Southern California and Kansas City offices for MHM have the experience and possess the technical skills and knowledge in accounting and financial reporting necessary to provide the highest level of professional service to employee benefit plan audit clients. As noted above, we have approximately 6 shareholders, 6 managers and 25 staff trained and experienced with audits of employee benefit plans. Our professionals have experience auditing plans that have ranged in size from 150 participants and \$1 million in assets to over 67,500 participants and \$5 billion in assets. There will be a minimum of 7 professional staff assigned to OCERS on a full time basis.

MHM is a member of the American Institute of Certified Public Accountants' Center for Audit Quality (CAQ). The CAQ is an autonomous, nonprofit organization which serves as the "voice of the profession" on matters relating to public company audits. The CAQ communicates the issues and views of the public company auditing profession to regulators. To acquire and retain 'member firm' status, all partners, owners, shareholders and employees of the firm who live in the United States and are eligible for AICPA membership must be AICPA members. MHM is also a member of the American Institute of Certified Public Accountants' Government Audit Quality Center.

## **FIRM'S EXPERIENCE IN PROVIDING SIMILAR SERVICES (CONTINUED)**

MHM was the fifth firm to join the American Institute of Certified Public Accountants' Employee Benefit Plan Audit Quality Center. This means we must meet the more stringent quality standards required of CPA firms auditing employee benefit plans.

MHM is also registered with the Public Company Accounting Oversight Board (PCAOB). This means that MHM must meet the more stringent quality standards required of CPA firms auditing publicly held companies. It also requires MHM to participate in the inspection program of the PCAOB which includes a peer review. This review, conducted by an independent firm, audits our policies and standards to ensure our training, supervision of work, and continuing education have produced an effective quality control system. To date, all of our Peer Reviews have received clean opinions.

## MAYER HOFFMAN McCANN LOCATIONS

MHM has more than 280 Shareholders in 34 offices throughout the United States.

**Mayer Hoffman McCann P.C.  
Office Locations**



## **ASSOCIATION WITH CBIZ**

MHM's expertise may be supplemented with resources available through our association with CBIZ, Inc. (NYSE: CBZ).

CBIZ, with offices throughout the country, is one of the nation's leading providers of business services, including accounting and tax, benefits and insurance, and a wide range of consulting services. Mayer Hoffman McCann P.C. and CBIZ have a strategic association that allows us to work seamlessly together so you can focus on what you do best: Managing Your Business. CBIZ is a national multi-disciplinary services firm that provides customized financial and business solutions including:

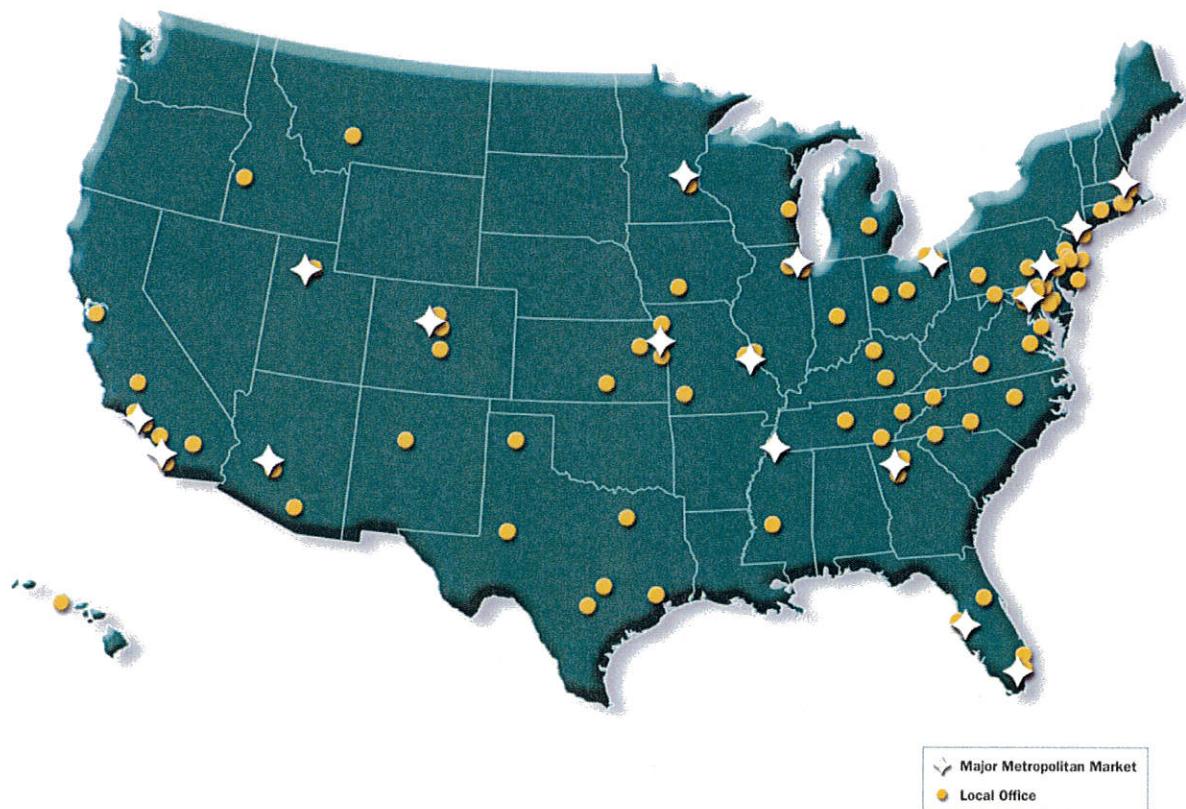
- Accounting, Tax and Advisory
- Benefits & Insurance
- Human Resources
- Litigation Support
- Payroll
- Property Tax
- Technology
- Valuation

This model provides the resources to fulfill your management and operational needs, allowing you to focus on your core business. CBIZ consists of the nation's top business service providers working together to function as your single, powerful resource for business solutions. Nationally, CBIZ is the 9th largest accounting services firm (as ranked by *2015 Accounting Today's Top 100 Firms*), the #1 benefits specialist (as ranked by *Business Insurance*), and a leading valuation services firm.

Through MHM's association with CBIZ, we employ over 5,000 people, including more than 250 shareholders in more than 34 offices across the country and are licensed to practice in all 50 states, plus the District of Columbia. Our Southern California accounting practice has over 150 people including 6 audit shareholders and 21 tax and litigation directors. We currently have a total of 50 CPAs in the Southern California offices.

## ***CBIZ Locations***

With professionals in more than 150 offices in 38 states and the District of Columbia, CBIZ's resources and product array are uniquely suited to support the growth and success of OCERS.



## **LICENSED TO PRACTICE IN CALIFORNIA**

Mayer Hoffman & McCann P.C. and all key financial statement audit professionals assigned are properly licensed to practice in the State of California.

## **INDEPENDENCE**

Mayer Hoffman McCann P.C., Certified Public Accountants is independent of OCERS as defined by U.S. Generally Accepted Auditing Standards and the U.S. General Accounting Office's Government Auditing Standards. We are also independent of OCERS as defined by those same standards, and have had no professional relationships with OCERS over the last 5 years.

In addition, we will monitor all services provided to OCERS to ensure that we meet current and future standards for independence.

## **EMPLOYEE BENEFIT PLAN GROUP**

### *NATIONAL RESOURCES*

Mayer Hoffman McCann P.C. (MHM) has assembled an Employee Benefit Plan Task Force consisting of professionals from across the country who specialize in employee benefit plan audits. The Task Force represents a resource for expert consultation to all of our professionals and provides a platform for quality and consistency throughout the firm.

In addition to resources within MHM, MHM's association with CBIZ provides access to professionals within their benefits and insurance group who have a wealth of knowledge and experience with respect to employee benefit plans including plan design and consulting; record keeping and plan administration; actuarial valuation of pension liabilities; Form 5500 preparation; as well as other services. Although we may not provide all services to every client due to independence requirements of the American Institute of Certified Public Accountants and the Public Company Accounting Oversight Board, our ability to tap into this resource enables us to

## **NATIONAL RESOURCES (CONTINUED)**

provide a higher level of service to our employee benefit plan audit clients.

Nationally, MHM performs approximately 1,000 audits of employee benefit plans including defined benefit, defined contribution, and health and welfare plans. This is a target market for our firm and our goal is to continue to expand this service area. We are dedicated to providing a high level of service to employee benefit plan audit clients, a dedication that is supported by the fact that we have several clients for which employee benefit plan audit services are the only services provided due to our expertise in this area.

## **QUALIFICATIONS**

The Southern California and Kansas City offices of MHM have the experience and possess the technical skills and knowledge in accounting and financial reporting necessary to provide the highest level of professional service to employee benefit plan audit clients. Our Kansas City office is represented on MHM's Employee Benefit Plan Task Force in a leadership capacity indicating that the depth of our skills and knowledge is of the highest quality across the firm.

We have extensive experience working with various third party service providers in the employee benefit plan industry; we have clients with numerous types of employee benefit plans; and have extensive experience with respect to auditing, accounting, compliance and reporting issues unique to employee benefit plans. Listed below and on the following page are examples of the experience that the Southern California and Kansas City offices of MHM have with employee benefit plans in the above categories:

### **Employee Benefit Plan Types:**

- Defined benefit pension
- Cash/deferred arrangement [401(k)]
- Profit sharing
- Money purchase pension
- Cash balance pension
- Thrift
- ESOP
- Health and welfare
- Union
- Master Trust

## ***QUALIFICATIONS (CONTINUED)***

### **Third Party Service Providers – Trustees, Asset Custodians, Recordkeepers and Actuaries:**

- State Street Bank & Trust
- Wells Fargo Bank
- Principal Life Insurance Company
- Putnam Fiduciary Trust Company
- The Hartford Life Insurance Company
- Mellon Bank, N.A.
- Vanguard Fiduciary Trust Company
- U.S. Bank
- Towers Perrin
- Hewitt Associates
- Mercer
- Watson Wyatt Worldwide
- Merrill Lynch Trust Company, FSB
- Nationwide Life Insurance Company
- Fidelity Management Trust Company
- T. Rowe Price Trust Company
- Mass Mutual Life Insurance Company
- Great West Life & Annuity Insurance Company
- John Hancock Life Insurance Company
- Marshall & Ilsley Trust Company
- American United Life Insurance Company
- The Bank of New York
- JP Morgan Chase Bank
- Northern Trust Company
- BISYS Retirement Services
- CIGNA Retirement & Investment Services

Our professionals have experience auditing plans that have ranged in size from 120 participants and \$1 million in assets to over 67,500 participants and \$5 billion in assets.

## *QUALIFICATIONS (CONTINUED)*

### Auditing, Accounting, Compliance and Reporting Issues:

- Real estate investments
- Limited partnership investments
- Derivatives
- Hard to value assets
- Securities lending
- Section 457 plans
- Master trust arrangements
- Common/commingled trusts
- Participant loans
- Self-directed investments
- Self-directed brokerage accounts
- SEC reporting on Form 11-K
- 401(h) features
- Plan mergers and spin-offs
- Change in service providers
- Guaranteed investment contracts
- Non-exempt transactions
- Reportable transactions
- Participation in voluntary compliance programs
- Frozen and terminating plans

As demonstrated above, the Southern California and Kansas City offices of MHM have the experience you need to handle your current needs as well as the experience necessary to provide ongoing support. Our understanding of the risks and issues faced by sponsors of employee benefit plans will provide you with proactive advice and timely responsiveness to any issues you face. We will work closely with you throughout the engagement to ensure the success of each audit and your complete satisfaction.

## **SIMILAR ENGAGEMENTS WE HAVE EXPERIENCE WITH**

The following is a sample of our experience providing similar services to pension plan and government entity clients:

- Bi-State Development Agency of Missouri-Illinois Metropolitan District Employees' Pension Plans – 5 plans
- City of Delano Employees' Pension Plan – 1 plan
- County of Los Angeles Defined Contribution Plans – 4 plans
- U.S. Airways 11K, Defined Benefit, Defined Contribution, and Health and Welfare Plans – 13 plans
- Starwood Hotels & Resort Worldwide, Inc. Defined Contribution, Health and Welfare Trusts and Comingled Trusts – 6 plans
- Southwest Airlines – Defined Contribution, and Health and Welfare Plans – 5 plans

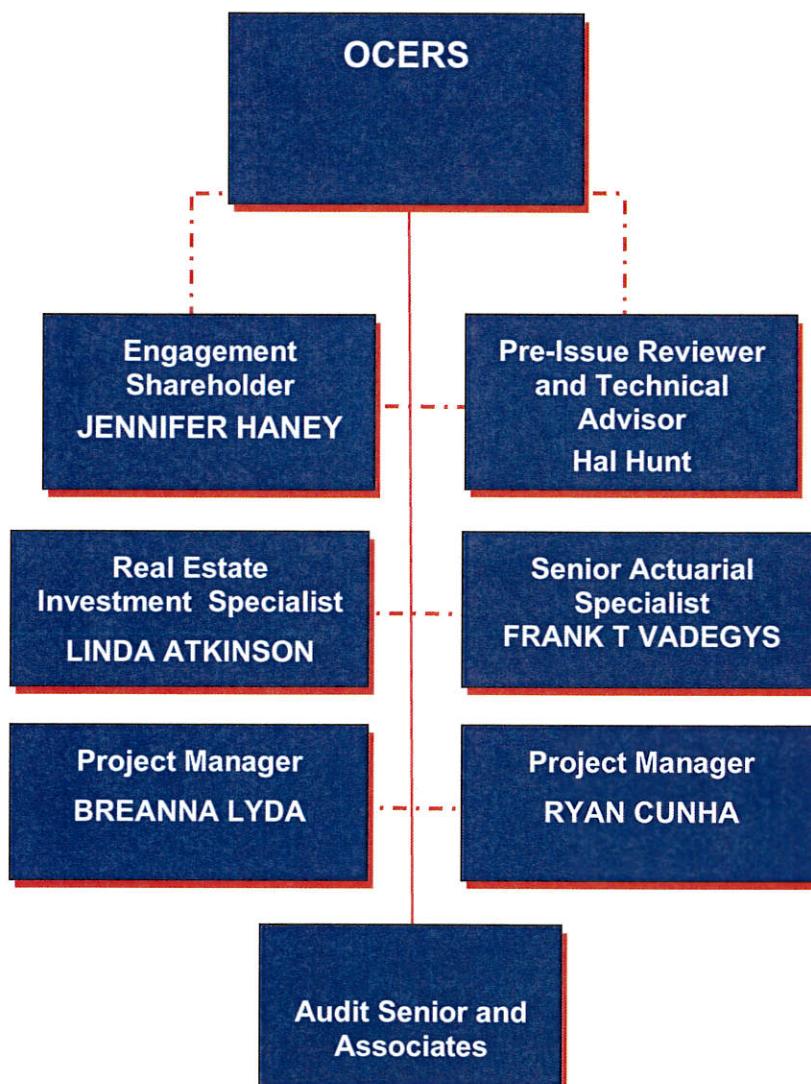
## **PROFESSIONAL STAFF QUALIFICATIONS AND EXPERIENCE**

The engagement team assembled for OCERS has extensive experience with respect to auditing, accounting, compliance and reporting unique to employee benefit plans subject to governmental standards. Specifically, this team of individuals has worked with numerous trustees, custodians, record keepers, the Department of Labor, and actuaries. Additionally, the audit team for OCERS attends the annual AICPA Employee Benefit Plan Conference and MHM's firm sponsored Employee Pension Plan Update course, which is a CPE course designed to provide an update and technical training in regards to current events, changes, and/or updates to pension audits.

In performing this engagement MHM will lease professional and administrative staff, both of which are employed by subsidiaries of CBIZ, Inc. These individuals will be under the direct control and supervision of MHM, which is solely responsible for the professional performance of our engagement. Additionally, the professional staff is subject to the standards governing the accounting profession, including the requirement to maintain the confidentiality of client information. MHM and subsidiaries of CBIZ, Inc. have contractual agreements requiring confidential treatment of all client information.

## **KEY PERSONNEL AND SUPPORT STAFF TO BE ASSIGNED**

The following chart represents the management approach MHM will take in order to use its available resources to complete the OCERS audit.



## **ENGAGEMENT SHAREHOLDER**

**Jennifer Haney** (Jennifer) has over 25 years of accounting and auditing experience, including audits of employee benefit plans. She is associated with MHM's Employee Benefit Plan Task Force and represents our Southern California offices in this aspect of our audit practice. Jennifer's audit experience also includes audits conducted under Government Auditing Standards, the Single Audit Act as revised and OMB Circular A-133. She is currently the audit Shareholder in charge of various HUD assisted projects and audits of the Kern High School District. In addition, Jennifer has been the engagement shareholder and/or the technical reviewer on the audit of the City of Delano Employees Pension Plan and various municipalities. The HUD audit referred to above was performed in accordance with GAO and HUD Compliance Audit Guide applicable to audits of major federal programs.

Jennifer will be responsible for all technical aspects and overall delivery of audit services. Jennifer will work very closely with Hal Hunt in planning the job, assessing overall risk of the job, and will have direct supervision of the audit team. Jennifer will be available to OCERS staff to provide assistance as they prepare the CAFR and to ensure that all requirements for the GFOA award have been met.

Jennifer is currently the engagement shareholder responsible for approximately 50 audit and attest clients. Jennifer has a very manageable attest practice and will be the engagement shareholder to oversee the OCERS fieldwork. As such, Jennifer plans to spend at least 15 hours in the field during interim fieldwork and at least 15-20 hours in the field for the final fieldwork phase of OCERS's audit. Jennifer will be available for all meetings between the auditors and OCERS Staff, Management, and Boards; and on days that Jennifer is not in the field, she will be accessible through phone and email and will return all messages within a 24-hour time period.

## **PRE-ISSUE REVIEWER AND TECHNICAL ADVISOR**

**Hal Hunt, CPA** Hal is a MHM Shareholder and CBIZ Director who would be responsible for the Quality Review of the OCERS audit. He is the National Director of MHM's Employee Benefit Plan Audit Practice. On a national level, he is the firm's representative to the AICPA Employee Benefit Plan Audit Quality Center and is a member of its Executive Committee. Hal has performed and supervised attest engagements over his 25 years with Mayer Hoffman McCann P.C. and he oversees the quality control and delivery of EBP and ERISA audits, requiring DOL reporting.

## **ENGAGEMENT MANAGER**

**Breanna Lyda, CPA** Breanna has responsibility for approximately 20 employee benefit plan audits for the Los Angeles office. As such, Breanna will spend approximately 24 hours in the field during interim fieldwork and approximately 20 hours in the field for the final fieldwork phase of OCERS's audit. Breanna will be available for all meetings between the auditors and OCERS Staff, Management, and Boards; and on days that Breanna is not in the field, she will be accessible through phone and email and will return all messages within a 24 hour time period.

## **ENGAGEMENT MANAGER**

**Ryan Cunha, CPA** (Ryan) is an audit manager in the Bakersfield office and has over five years of audit experience with entities from the government and private sectors in a variety of industries. Ryan has supervised the assurance work for numerous defined benefit and defined contribution plans. Ryan manages the audit of the Kern High School District which includes implementation of GASB 68 in the current year. Ryan assisted the City of Delano earn the GFOA award and assisted their Pension plan with the implementation of GASB 67.

Ryan's role will be to assist the shareholders and Breanna with planning and executing the audit plan. With his government background and experience, Ryan will concentrate his efforts in planning for and supervising the audit team in the area of documenting controls and processes and testing those controls as deemed relevant through the risk assessment and planning

process. During fieldwork and wrap up, Ryan's focus will be direct supervision of the staff and liaison between OCERS staff and the audit team. He will be in charge of reviewing all of the audit team's work and documentation of the audit process. Ryan will also perform the initial review of the CAFR which includes reviewing in regards to adherence to GASB and GFOA requirements.

Ryan has responsibility for approximately 20 clients for the Bakersfield office. Ryan will be the primary manager in the field responsible for staff supervision and execution of the audit plan. Ryan will be the primary contact between OCERS staff/management. As such, Ryan will spend 70-75% of his time in the field during the fieldwork phases of OCERS's audit. Ryan will be available for all meetings between the auditors and OCERS Staff, Management, and Boards; at any time that Ryan is not in the field, he will be accessible through phone and email and will return all messages within a four hour time period.

## **STAFF TURNOVER AND PARTNER ROTATION**

We set forth to hire the best professionals as well as retain and develop our current staff of professionals. The ability to retain professional staff decreases the amount of time and expense needed to educate our staff on our client's business and accounting functions leading to better service and less disruption of your people.

We take pride in our low turnover rates. We believe that the most effective and efficient projects take place when engagement teams are kept intact. Our low turnover means that OCERS will be dealing with the same people year after year. Should someone on our engagement team leave the firm, we would replace them with a professional of equal or greater experience.

With regards to the practice of Shareholder Rotation, whereby every 3 years a new Shareholder takes overall responsibility of the audit: we understand the need for continuity and customer

## **STAFF TURNOVER AND PARTNER ROTATION (CONTINUED)**

history for great customer service, and temper that with the practice of a “fresh set of eyes” to the audit approach and execution. With our practice of 3-year Shareholder rotation, you receive that fresh set of eyes to your financial statements, without having to bring a new firm up to speed on your operations and company culture. This seamless-to-you approach to the audit ensures that you will receive the same care and consideration from the firm that knows your business, without disrupting your business flow.

MHM has put together a very cohesive, experienced team from our pension audit teams in both the Southern California and Kansas City offices. We feel that the team we have put together combines years of defined benefit pension plan and government audit experience to give OCERS a very high level team of professionals that are dedicated to providing high quality and timely services to our clients; and has the qualifications to provide the same to OCERS. In the unusual event that an Engagement Shareholder or Manager leaves the OCERS audit team, MHM will provide OCERS an opportunity to review the resume of and interview the individual selected as a replacement for the departing team member. This replacement team member will be fully versed in OCERS’s operations, investments, and financial statements before ever joining the audit team in order to minimize any transition effect to OCERS.

## **PROPOSER GUARANTEES**

The Proposer certifies it can and will provide and make available, as a minimum, all services set forth in Section 3, Nature of Services Required.



Signature of Official: \_\_\_\_\_

Name (Typed): Jennifer Haney

Title: Audit Shareholder

Firm: Mayer Hoffman McCann P.C.

Date: November 13, 2015

## **PROPOSER WARRANTIES**

1. Proposer warrants that it is willing and able to comply with State of California laws with respect to foreign (non-state of California) corporations.
2. Proposer warrants that it is willing and able to obtain an errors and omissions insurance policy providing a prudent amount of coverage for the willful or negligent acts, or omissions of any officers, employees or agents thereof.
3. Proposer warrants that it will not delegate or subcontract its responsibilities under an agreement without the prior written permission of OCERS.
4. Proposer warrants that all information provided by it in connection with this proposal is true and accurate.



Signature of Official: \_\_\_\_\_

Name (Typed): Jennifer Haney

Firm: Mayer Hoffman McCann P.C.

Date: November 13, 2015

## **REFERENCES:**

Current Client References

### **1. City of Delano Employees Pension Plan**

- A. 1015 Eleventh Ave.  
Delano, CA 93216
- B. Website Address: <http://www.cityofdelano.org>
- C. Nature of the Business – Defined Benefit Plans for City employees
- D. Principal Contact: Rosa Rios, Finance Director  
(661) 720-2235  
[RRios@DistrictofDelano.org](mailto:RRios@DistrictofDelano.org)
- E. MHM has been the auditor of the Employees Pension Plans' from 2010 - 2014
- F. MHM provided full scope audit services to the Benefit plan.

### **2. Kern High School District**

- A. 5801 Sundale Drive  
Bakersfield, CA 95834
- B. Website Address: <http://home.kernhigh.org>
- C. Nature of the Business – High School District in Kern County
- D. Principal Contact: Bob Dickson, Director of Fiscal Services  
(661) 827-3140
- E. MHM has been the auditor of the District since 2002.
- F. MHM provided audit services to the District including Single Audit

## **REFERENCES (CONTINUED):**

- 3. Public School Retirement System of the School District of Kansas City, Missouri**
  - A. 4600 Paseo Boulevard  
Kansas City, MO 64110
  - B. Nature of the Business – retirement plans for the employees of the School District of Kansas City
  - C. Principal Contact: Laura Oswald  
(816) 472-5800  
[Laura.Oswald@kcpsrs.org](mailto:Laura.Oswald@kcpsrs.org)

## AUDIT PLANNING AND APPROACH

The MHM approach emphasizes planning, supervision, and review. We strive to be proactive, anticipating issues before they become problems and thereby avoiding surprises. We utilize an analytical, risk-based approach to the audit, which allows us to tailor our approach to focus our effort on the most significant areas.

### BASIC ELEMENTS OF THE DETAILED WORK PLAN

#### Planning

- Schedule and conduct a review of the audit documentation retained by your prior auditor for the audit of the plan for the year ended December 31, 2015. Coordinate with the OCERS project manager and prior auditor personnel for obtaining the appropriate releases to conduct such reviews.
- Conduct an initial meeting with plan management to discuss the scope and approach to each of the audits. Reach a consensus with plan management on the scope and planned approach for the completion of each audit considering the requirements of professional standards.
- Read minutes of both the Board of Retirement, Audit, Administrative and Investment Committees; or any other committees, groups or individuals responsible with oversight of the plans. MHM will also review the State of California office of the Controller website and Minimum Audit Requirements and Reporting Guidelines for Public Retirement Systems for any updates and changes that will need to be applied to OCERS's audit.
- Hold a pre-planning meeting with the engagement team to discuss nature, timing and extent of procedures to be performed and audit budgets.

## **BASIC ELEMENTS OF THE DETAILED WORK PLAN (CONTINUED)**

### **Planning (Continued)**

- Obtain an understanding and formulate a preliminary risk assessment of the control environment surrounding the operation of each plan, including the control environment at OCERS through interviews with key OCERS staff and management, investment advisors, and the plan actuary. We will also request to review pertinent governing documents and policies and procedure manuals to enable us to gain the necessary understanding of OCERS in order to assess risk and determine the extent of test of controls.
  - Develop a preliminary risk assessment based on our understanding of the control environments at OCERS.
  - Perform tests of applicable controls to validate our preliminary risk assessments.
- Mail confirmation requests to investment advisors, custodians, actuaries, and record keepers to obtain information required to complete each requisite area of the audit.
- In accordance with generally accepted auditing standards, MHM will perform a high level analytical review to assist with determining extent of substantive testing and determining overall audit approach.
- Prepare and send to plan management a detail list of information required from OCERS to complete both the interim and final fieldwork sections of the audit. Such information requested will include census, payroll and human resources information for members of OCERS, among other requests.
- Obtain and read copies of amendments to the plan documents adopted during the year.
- Obtain and read copies of correspondence received from regulatory bodies governing the plans.

## **BASIC ELEMENTS OF THE DETAILED WORK PLAN (CONTINUED)**

### **Fieldwork**

- Make inquiries of plan management regarding legal contingencies, review invoices from attorneys providing legal services to the plans and consider sending letters of inquiry to the plans' legal counsel.
- Perform testing in the following areas using testing procedures and sample sizes determined based on a combination of our preliminary risk assessments, results of tests of controls and consideration of the requirements of professional standards:
  - Contributions received and receivable
    - Independent verification of plan level contributions
    - Independent verification of plan level contributions receivable
  - Investments and related income, including securities lending activities.
    - Confirmation of investment holdings with custodians/trustees
    - Independent verification of share/unit values of investment holdings. We also have the ability to consult with our Wealth Management and Real Estate Valuation experts for valuation of mortgages, real estate equity funds, real estate holding companies and LLC, and private equities.
    - Review for adherence to proper loan procedures
    - Analytical procedures and other substantive testing of investment income, including review for proper adherence to loan procedures.
  - Participant data and employee contributions
    - Independent verification of employee eligibility, employment service period, participation status, compensation and contributions. As part of our participant testing MHM would anticipate using sample sizes ranging from 60 – 120 depending on the test/procedure we are performing.

## **BASIC ELEMENTS OF THE DETAILED WORK PLAN (CONTINUED)**

### **Fieldwork (Continued)**

- Participant accounts
- Independent verification of the allocation/crediting of contributions to participant accounts
  - Independent verification of the census data through confirmation with the Plan actuary and consultation with our CBIZ actuarial experts to determine the reasonableness of assumptions.
- Benefit payments
  - Independent verification of proper authorization and execution of participant benefit payments.
  - Ascertain proper treatment of forfeited balances
- Administrative expenses through performing analytical procedures and inquiring of management regarding significant changes year-over-year and vouch as deemed necessary.
- Other plan assets and liabilities
- Statistical sampling methods to be utilized to achieve a confidence level of 90%, and a precision of plus or minus 2%.
- As the OCERS plan is highly compliance oriented in nature, MHM does not anticipate using analytical procedures for substantive testing of balances. However, if we deemed it practical and efficient in such areas as Administrative expenses, MHM will use analytical procedures to determine reasonableness of such items.
- Select and test journal entries recorded in the general ledger and all material adjustments made by the client in preparing the financial statements. Document the items selected.

## **BASIC ELEMENTS OF THE DETAILED WORK PLAN (CONTINUED)**

### **Fieldwork (Continued)**

- Identify and consider the appropriateness of significant adjustments to general ledger balances (such as post-closing entries, report combinations, and reclassifications) made in the preparation of financial statements. Examine supporting documentation or agree amounts to the audit work papers where tested.
- Identify potential audit adjustments and plan compliance issues.

To ensure that MHM remains current on professional standards, the Firm employs various methods to keep current. The Firm subscribes to an internet-based research tool such as CCH's Accounting Research Manager, the premier on-line research tool for the accounting industry. With this tool all the Firm has current and up to date access to all GASB, FASB, and AICPA Audit guides and materials related to GAAS and GAGAS, etc. Through its subscription to Accounting Research Manager, MHM's professional staff receives daily and weekly emails regarding the standards and any current events or decisions that are under consideration of the various standard setting bodies. MHM also has a technical committee and Professional Standards Group (PSG) that is accessible to the audit team for any technical consultation that it deems necessary during the audit and financial reporting process. To ensure that its auditors are kept apprised of current changes and new regulations, the MHM Technical committee and PSG issues various internal communications and bulletins regarding new standards, interpretations, etc.

## **BASIC ELEMENTS OF THE DETAILED WORK PLAN (CONTINUED)**

### **Financial Reporting**

- Identify potential reporting issues. Research on such issues to be performed utilizing internet-based research tools such as CCH's Accounting Research Manager, the premier on-line research tool for the accounting industry, and consultation with internal resources within our actuarial and benefits consulting group. Communicate issues and alternative resolutions to plan management to seek final resolution.
- Complete a final analytical review of the balances as presented on the statements by comparing such balances to prior years, budgets, and other pertinent performance data to determine overall reasonableness and fairness of the balances in relation to the substantive procedures performed and documented in our working papers.
- Draft written communications to plan management including standard communications to audit committees, or their equivalent (SAS 114 Letter), and communications regarding internal control related matters (SAS 115 management letters). Circulate draft copies of other written communications for review by plan management personnel and internal quality inspection purposes. Accumulate and incorporate comments and changes to drafts for subsequent circulation.
- Conduct exit conference with plan management and Boards as prescribed in the Audit Services Agreements to finalize all drafts and review and assess performance.
- Issue and deliver written communications to plan management.

## **EXECUTION OF AUDIT PROGRAMS**

After ensuring the engagement has been properly planned, the engagement team, under the supervision of the shareholders and managers assigned to the engagement, will perform the procedures as outlined in the audit programs. While performing the outlined procedures, the team will:

- ensure compliance with the various laws, regulations, and other compliance requirements affecting the employee benefit plans;
- ensure a clear understanding of the management controls in effect and provide comments for potential improvements to the current management control structure; and
- ensure sufficient, competent, and relevant audit/attest evidence to support the financial statements and conclusions formed throughout the course of the engagement are maintained.

## **WORK PAPER DOCUMENTATION**

The performance of the procedures outlined in the audit programs will be documented through our work papers and will support our reports issued at the conclusion of the audits. Our work papers will:

- contain objectives, scopes and methodologies for sampling which employed a confidence level of at least 90% as appropriate;
- document the work performed to support the conclusions;
- provide support of the supervisory review of the work performed; and
- contain sufficient information to enable an experienced auditor, having no previous connections with the audits, to arrive at the same conclusions from the work papers.

## **WORK PAPER DOCUMENTATION (CONTINUED)**

With respect to any third party documentation that we may rely upon as audit evidence, sufficient tests will be performed and documented relating to the third party's qualifications, independence, and competence, as well as the methodology and significant assumptions used in the third party documentation.

## **SUPERVISION AND REVIEW OF WORK PRODUCT**

All aspects of the engagement will be properly supervised. The engagement shareholders will review the planning documentation prior to the commencement of the audit. Throughout the course of the engagement, the shareholders and audit managers will supervise daily activities and the procedures performed by the engagement team. The shareholders and audit managers will date and initial the appropriate work papers prepared by the engagement staff to document their review and approval.

## **USE OF TECHNOLOGY**

Our strategic investment in information technology and training enables us to work efficiently. Proficient with contemporary database models, we are able to accept, convert and process large data sets from many different sources and formats. This ability provides added insight into the development of complex databases that allow report changes and comply with current data communication, programming, and data analysis technologies.

We will utilize technology to the fullest extent possible. For example, we prefer to receive all files in Word, Excel and/or PDF format, eliminating the need for you to make countless copies. We have established an online tool, The Hub®, for securely sharing information with our clients.

## The Hub®

The Hub® client portal is a secure, online service management tool that simplifies the entire process of your financial service engagements with us. The Hub® minimizes the inefficiencies typically associated with gathering documents, keeping schedules and managing workload among your team. It also streamlines communications with your MHM and CBIZ team, thereby freeing up your valuable time.

### **Benefits of The Hub® Include:**

- View the progress/status of your engagements.
- Stay up-to-date with calendars, reminders, due dates and recent activity related to your engagements.
- Disperse audit preparation and other engagement related workload within your organization. You determine who can access what information.
- Access the same accounting guidance we utilize, directly from The Hub®, at a significant discount.
- Easily submit and track requested documents at your convenience – just drag from your computer and drop onto The Hub®.
- At a glance, access current engagement open items across any or all of your engagements.



## **QUALITY CONTROL SYSTEM SPECIFIC TO THIS WORK PRODUCT**

Prior to submission of the reports, the reports and supporting work papers will be reviewed by a Quality Control Review Shareholder. This review will be performed to ensure the applicable audit standards have been adhered to, and to ensure the appropriate audit policies and procedures have been applied throughout the course of the engagement. The Quality Control Review Shareholder will be independent of the engagement process as this individual will not be associated with the daily aspects of the engagement prior to issuance of the reports.

In order to ensure that effective progress is being made on the audit, at the end of the day, the Managers will review with the team the work that was completed that day and what needs to be done for their respective sections to be completed. Prior to the weekly meeting with the OCERS staff, the shareholder(s) and manager(s) will review the team's progress, compare with planned results timeline to determine the status of the engagement progress what, if anything will need to be changed to meet the agreed upon deadlines. If there are any outstanding items that are in progress by the OCERS staff, or any critical issues that are being resolved, they will be discussed at the weekly meeting with OCERS to serve as a reminder of pending items as the engagement progresses.

## QUALITY CONTROL SYSTEM SPECIFIC TO THIS WORK PRODUCT (CONTINUED)

The following chart illustrates the planned personnel and estimated hours to be spent for specific areas of OCERS's audit.

<b>Section No.</b>	<b>Audit Section (Categories) Description</b>	<b>Personnel Positions</b>	<b>Proposed Audit Hours</b>	<b>% of Total Audit Hours</b>
1	Audit Planning	Senior, Manager, Shareholders	80	7.34%
2	Assist Client Personnel	Senior, Manager	20	1.83%
3	Audited FS - General Procedures	St,S	20	1.83%
4	Conferences	Manager, Shareholders	10	0.92%
5	Correspondence	Senior, Manager	5	0.46%
6	Cash and Short Term Investments	Staff, Senior	10	0.92%
7	Other Assets	Staff, Senior, Manager	15	1.38%
8	Investments	Staff, Senior, Manager	125	11.47%
9	Expenditures and Payables	Staff, Senior	40	3.67%
10	GASB 67 & 68	Senior, Manager, Shareholders	290	26.61%
11	Internal Control	Staff, Senior	80	7.34%
12	Minutes, Ordinances, Laws	Staff	10	0.92%
13	Shareholder Review	Shareholders	40	3.67%
14	Manager Review	Managers	75	6.88%
15	Receivables and Revenue - Govt	Staff	50	4.59%
16	Report Preparation/Review	Staff, Senior, Manager	30	2.75%
17	Review Documents	Senior	25	2.29%
18	Risk Assessment	Staff, Senior, Manager	40	3.67%
19	AU-C 240 (formerly SAS 99)	Staff, Senior, Manager	10	0.92%
20	Technical Review	Shareholder	15	1.38%
21	Travel Time	All	50	4.59%
22	Other	All	50	4.59%
	Total		1090	

## TIMETABLE – AUDIT COMPLETION SCHEDULE

The audit to be completed will begin upon award of contract and follow the timetable shown below with delivery of the final report on or before the specified June date.

Task	2016						
	Jan	Feb	Mar	Apr	May	Jun	Jul
<b>PLANNING</b>							
Commence audit of OCERS							
Planning							
Entrance Conference							
Interim Fieldwork							
Evaluate Accounting System & Internal Controls							
Delivery of a detailed work schedule							
<b>AUDIT FIELDWORK, TESTING AND FINANCIAL STATEMENTS</b>							
Fieldwork							
Progress Reports							
Exit Conference							
Draft Reports							
<b>AUDIT WRAP-UP</b>							
Review Reports with management							
Issue Reports							

★ Meeting

The above chart provides a graphical presentation of our timetable for completion of the audits. Below are specific dates targeted for beginning work in various areas for timely completion of the audits.

### December 31, 2015

Start of the project	February, 2015
Planning	February - March, 2015
Entrance conference	February, 2015
Delivery of detailed work schedule	February, 2015
Interim and Final Fieldwork	April – May, 2015
Delivery of draft reports	May, 2015
Exit conference	May 2015
Delivery of final reports	June, 2015

## AUDITORS' FEE SCHEDULES:

Professional Hours and Fees for 2015 Audit

	Rate	Quoted Rate	Planning	Fieldwork	Completion	Total Hours	Total \$
Jennifer	305	210	20	35	15	70	\$ 14,700
Hal	305	210	5	15	5	25	5,250
Breanna	285	190	20	55	0	75	14,250
Ryan	285	190	25	50	10	85	16,150
Kevin	205	130	75	150	20	245	31,850
Staff	105	70	50	125	0	175	12,250
Staff	105	70	0	125	0	125	8,750
			195	555	50	800	\$ 103,200

Professional Hours and Fees for 2015 GASB 67/68 Audit Work

	Rate	Quoted Rate	Planning	Fieldwork	Completion	Total Hours	Total \$
Jennifer	305	210	-	35	-	35	\$ 7,350
Hal	305	210	-	5	-	5	1,050
Breanna	285	190	-	-	-	-	-
Ryan	285	190	-	75	-	75	14,250
Kevin	205	130	-	175	-	175	22,750
Staff	105	70	-	-	-	-	-
Staff	105	70	-	-	-	-	-
			-	290	-	290	\$ 45,400

This fee amount will allow us to provide OCERS with the quality audit services that MHM is known for while being mindful of your budget. We are looking forward to establishing a strong long-term working relationship with OCERS; therefore, the partners will schedule time out of their development budget to devote to specific issues that may arise but do not fall within the scope of the audit plan. Additionally, due to the current state of the economy and the uncertainties surrounding our State funding (and budget uncertainties facing counties), MHM will not raise the proposed fee to OCERS for the first three years and we propose only a modest 2% increase for the remaining two years of the contract.

## **AUDITORS' FEE SCHEDULES (CONTINUED):**

The following is the listing of the members of the audit team that will be assigned to OCERS. The rates indicated below are the same rates that would be billed for additional ad hoc professional services and consulting services.

Audit Team		
Name	Position	Hourly Rate
Jennifer Haney	Shareholder	\$305
Hal Hunt	Shareholder	\$305
Breanna Lyda	Manager	\$285
Ryan Cunha	Manager	\$285
Senior and Associates		\$105 - \$205

## **IDENTIFICATION OF ANTICIPATED POTENTIAL AUDIT PROBLEMS**

After careful review of your CAFR, we do not anticipate any significant audit problems. However, as with many pervasive changes required by a new GASB pronouncement, we feel there is the potential for challenges in the first year of implementation of GASB 68. As with any issue or challenge that can arise during an audit, we would immediately hold working on that area of the audit and communicate the issues with OCERS management for problem resolution and continuation of the audit. There are times when members of Governance need to be made aware of the issue and become involved in the resolution process. Additionally, the issue may require further research on our part or consultation with our firm subject matter experts, professional standards group, or firm wide specialists for assistance. If either of these two situations arise, we would immediately get the necessary parties involved to arrive at a solution as promptly and efficiently as possible.

## **ADDITIONAL INFORMATION:**

- A. MHM does not plan to use any subcontractors in the performance of its audit services to OCERS.
- B. MHM's disaster recovery plans related to client data is comprehensive and seeks to ensure the integrity of client data and MHM's engagement files to allow for a very efficient and expedient restoration to work should a disaster occur. All client data is stored and secured on servers with redundant hard drives. Client data is backed up on a daily basis to tape media, which in turn is retained off-site on a weekly, monthly and annual basis. In the event of a local disaster, client data can be restored to/from an alternative CBIZ location via tape media recovered from our off-site tape vendor.
- C. MHM monitors client satisfaction through consistent and timely interactive communication with each client throughout the engagement. In this way, our clients are providing us with the necessary feedback – both complimentary and constructive – as the engagement progresses to ensure successful completion. Adverse issues are detected, addressed and resolved as quickly as possible; successes are identified, discussed and documented. This helps to ensure quality delivery and minimize unmet expectations.

MHM measures client satisfaction during the project completion meeting, held at the conclusion of each project. This meeting includes a brief survey which allows an open and frank discussion of the firm's approach, activity, and accomplishments. We collect and analyze this feedback to continually improve and adjust our methodologies for greater success in the future. Our biggest success is a satisfied client; our biggest reward is their repeat business.

## **APPENDICES**

## **PROFESSIONAL STAFF'S RESUMES**

**JENNIFER HANEY, CPA  
AUDIT SHAREHOLDER**

California CPA Certificate No. 65656, December 1993

Ms. Haney will serve as the Audit Shareholder on this project. She will oversee the project to ensure all required deadlines are met, plan the audit to address risk areas, provide technical assistance to the audit team, participate in the meetings of the Audit Committee, act as technical advisor for management of the organization, review the audit work performed, and sign the final audit reports. Ms. Haney will be available on site during the audit.



**PROFESSIONAL EXPERIENCE**

- 26 years - Mayer Hoffman McCann P.C.

**PROFESSIONAL AFFILIATIONS**

- Certified Public Accountant - California
- American Institute of Certified Public Accountants
- California Society of Certified Public Accountants, Bakersfield Chapter
- Kern County Sheriff's Activity League

**EDUCATION**

- Bachelor of Science - Business Administration/Accounting (*University of the Pacific*)

**Experience**

Jennifer is a shareholder with Mayer Hoffman McCann in the Bakersfield office and directs audit and attest services at the local level, and in our other Southern California offices. She currently serves on the National Task Force for HUD and Multifamily Housing audits. Jennifer specializes in providing accounting and attest services to local governments, nonprofit organizations, employee benefit plans, real estate entities with HUD financing, and commercial entities (including healthcare). She has significant experience working with clients that have regulatory compliance requirements such as the Single Audit Act (OMB Circular 133), HUD, and ERISA. Throughout her career with MHM, she has been a National Level auditing instructor and a training director for the Southern California offices, and is the local Director in charge of staff management and scheduling.

**Recent Relevant CPE:**

Dates	CPE Class	Dates	CPE Class
Feb 2012	2012 Local government audit training I	May 2014	CalCPA School District Conference
July 2012	CBIZ MHM Annual Conference	May 2014	MHM Employee Benefit Plan Update
July 2012	2012 Local government audit training II	Oct 2014	2014 Local government audit training
2012	4 Executive Education Series Classes	Dec 2014	Accounting and audit update
Dec 2012	Accounting and audit update	Feb 2015	Audit Methodology Update
May 2013	CalCPA School District Conference	May 2015	AICPA Employee Benefit Plan Conference
May 2013	Local Government Audit Training I	May 2015	CalCPA School District Conference
July 2013	Local Government Audit Training II	Sept 2015	Government Internal Controls Update
Dec 2013	Accounting and audit update		

*Hal Hunt, CPA*  
**QUALITY REVIEW SHAREHOLDER**

Hal Hunt leads MHM's Employee Benefit Plan Audit Practice. With over 30 years of diverse experience with employee benefit plan (EBP) accounting, auditing and compliance issues, he is also a member of the firm's Professional Standards Group as subject matter expert on EBP plan audits, as well as business combinations and lease accounting. As the National Practice Leader for EBP Audits, Hal is responsible for providing internal training on the subject, along with providing technical support to engagement teams, serving as engagement quality reviewer and developing resource tools for our EBP audit professionals.



**PROFESSIONAL EXPERIENCE**

- 30 years of Public Accounting Experience

**PROFESSIONAL AFFILIATIONS**

- Certified Public Accountant - Iowa, Kansas and Missouri
- American Institute of Certified Public Accountants (AICPA)
- Kansas Society of Certified Public Accountants (KSCPA)
- Camp Quality USA, Board of Directors
- Jackson County Court Appointed Special Advocate (CASA) Project, past Board Member and Finance Committee Chairman
- The Children's Place, past Board Member

**EDUCATION**

- B.S.B.A, Accounting, University of Missouri – Columbia, 1977

Hal has worked with more than 300 employee benefit plans in his career, either as engagement partner or the engagement quality reviewer. He has served on the AICPA's Employee Benefit Plan Audit Quality Center (EBPAQC) Executive Committee. The EBPAQC Executive Committee works closely with the Department of Labor in order to provide appropriate guidance to plan sponsors and their auditors. He is also a member of the AICPA's EBPAQC ESOP Task Force.

Hal also has significant experience with employee stock ownership plans (ESOPs) sponsored by privately held companies. Hal's ESOP experience covers a wide range of professional services — from ESOP consideration (feasibility studies) to accounting and auditing services. Additionally, he has been a co-presenter for webinars on ESOPs for MHM and the AICPA's EBPAQC.

Aside from his expertise in employee benefit plans, Hal has had a long career assisting corporate clients in various industries including wholesale distribution, manufacturing, hospitality and real estate. Hal has worked with closely-held companies as well as publicly traded, providing accounting, consulting in mergers and acquisitions and audit services.

## **Recent Relevant CPE**

Completion date	Program	Completion date	Program
Jan, 2013	ASU 2011-04 EBP Fair Value Disclosures Live Forum	July, 2014	2014 CBIZ MHM Annual A&A Conference
March, 2013	EBPAQC 11-K Audits	Aug, 2014	MHM Professional Standards Group Meeting-August 2014 - Participant
May, 2013	2013 AICPA Employee Benefit Plans Conference	Oct, 2014	401k Annual Audits: Anticipating Serious and Costly Errors, Evaluating Alternative Solutions
May, 2013	Accounting and Management Issues of Employee Stock Ownership Plans	Nov, 2014	The ESOP Association's 2014 Las Vegas Conference and Trade Show
June, 2013	Employee Stock Ownership Plans for the Architecture/Engineering/Construction Industry	Nov, 2014	MHM Professional Standards Group Meeting-November 2014 - Participant
July, 2013	2013 CBIZ & MHM Annual Conference EES Session Audit Methodology-What Every Partner Needs to Know	Dec, 2014	AICPA Employee Benefit Plans Accounting, Auditing and Regulatory Update
July, 2013	2013 CBIZ & MHM Annual Accounting & Auditing Conference	Jan, 2015	EBPAQC Designated Partner 2015 Audit Planning
July, 2013	EBP Update	Feb, 2015	MHM EQR Update 2015 Rebroadcast
Nov, 2013	The ESOP Association's 2013 Las Vegas Conference and Trade Show	March, 2015	EBPAQC 11-K Audits Live Forum Webinar (3/11/2015)
Nov, 2013	Employee Benefit Plan Accounting Issues Update	March, 2015	First Quarter Accounting and Financial Reporting Issues Update
Dec, 2013	AICPA Employee Benefit Plans Accounting, Auditing, and Regulatory Update (2013)	April, 2015	Professional Standards Group Meeting-Tampa Bay, FL April 2015
Feb, 2014	EBPAQC Designated Partner 2014 Audit Planning	May, 2015	AICPA 2015 Employee Benefit Plan Conference
May, 2014	Is an ESOP Right for Your Company?	June, 2015	Performing an Integrated Audit under PCAOB AS No. 5
May, 2014	2014 AICPA Employee Benefit Plans Conference	June, 2015	Highlights from the AICPA's National Conference on Employee Benefit Plans
May, 2014	2014 MHM Employee Benefit Plan Conference-Las Vegas, NV	June, 2015	2015 A&A Sr. Manager & Manager Technical Symposium
June, 2014	Methodology Update for Employee Benefit Plans	July, 2015	Reviewing an ESOP Valuation
July, 2014	2014 CBIZ MHM Annual Conference Executive Education Series-Revenue Recognition Update	Aug, 2015	Adopting and Applying FASB's New Employee Benefit Plans Reporting Simplification Rules (ASU 2015-12)

**Breanna Lyda, CPA  
AUDIT MANAGER**

California CPA Certificate No. 116805, October 2012

Breanna is a Manager in the Attest Services Group of Mayer Hoffman McCann P.C. She joined the firm in 2004 after graduating with a Bachelors of Science in Business Administration with a concentration in Accounting and a minor in Economics from California Polytechnic State University, San Luis Obispo.

Her technical expertise is in audits, reviews and compilations of financial statements for private entities as well as audits of employee benefit plans and HUD compliance audits. Her experience includes a risk based audit approach for mid market companies in various industries including manufacturing, entertainment, professional services and non-profit.

Breanna manages the employee benefit practice in the Los Angeles office which includes conducting yearly training and managing all engagements and associates. She is a member of the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants where she has completed their Emerging Leaders certificate program. She is member of Professionals in Human Resources Association (PIHRA) where she has gained a great appreciation for HR professionals and act as Treasurer for the South Bay Chapter.



**PROFESSIONAL EXPERIENCE**

- 11 years - Mayer Hoffman McCann P.C.

**PROFESSIONAL AFFILIATIONS**

- American Institute of Certified Public Accountants
- California Society of Certified Public Accountants
- PIHRA – Member
  - Treasurer (South Bay Chapter)

**EDUCATION**

- Bachelor of Science - Business Administration/Accounting, Minor in Economics
  - California Polytechnic State University, San Luis Obispo.

**AREA OF EXPERTISE**

- Audits of Employee Benefit Plans, HUD, Manufacturing, Non-Profit, Entertainment
- HUD Compliance Testing

**RECENT RELEVANT CPE**

Dates	CPE Class	Dates	CPE Class
May 2013	2013 MHM Employee Benefit Plan Conference	May 2014	2014 Employee Benefit Plan Training - LA
June 2013	2014 A&A Sr. Manager & Manager Technical Symposium	June 2014	2014 A&A Sr. Manager & Manager Technical Symposium
July 2013	EBP Update	April 2015	Audit Methodology Update for Employee Benefit Plans
Dec 2013	Audit Quality and A&A Update	May 2015	2015 Employee Benefit Plan Training - LA
April 2014	MHM Internal Update	June 2015	2015 A&A Sr. Manager & Manager Technical Symposium
May 2014	MHM Internal Update	Sept 2015	MHM Internal Update
May 2014	2014 MHM Employee Benefit Plan Conference		

**RYAN CUNHA, CPA  
AUDIT MANAGER**

California CPA Certificate No. 118366, March 2013

Ryan will serve as Audit Manager for the engagement. He will be onsite during the engagement and work closely with the OCERS staff. Mr. Cunha has experience auditing non-profits, healthcare, governments, employee benefit plans, and performing A-133 single audits. Ryan is a trained user of the IDEA data mining software and services as the office's Technology Champion, designating him to provide IT related attest assistance to our office's personnel.

Ryan currently serves as the Treasurer of a nonprofit organization, CASA of Kern County, which is an organization that speaks for abused and neglected children in the juvenile dependency process. Ryan is also the current Treasurer for the Bakersfield Chapter of the California Society of Certified Public Accountants.



**PROFESSIONAL EXPERIENCE**

- 5 years - Mayer Hoffman McCann P.C.

**PROFESSIONAL AFFILIATIONS**

- American Institute of Certified Public Accountants
- California Society of Certified Public Accountants
  - Treasurer - Bakersfield Chapter
- California Society of Municipal Finance Officers
- CASA of Kern County (Non Profit Organization)
  - Treasurer

**EDUCATION**

- Bachelor of Science - Business Administration/Accounting (California State University, Fresno)
- Masters of Science in Accounting (*Golden Gate University – In Progress*)

**AREA OF EXPERTISE**

- Audits of Non-Profits, Cities, School Districts, and Other Local Governments
- Single Audits/Program and Grant Compliance Testing
- Audits of Health Care Entities, Agricultural Entities, and Employee Benefit Plans

**RECENT RELEVANT CPE**

Dates	CPE Class	Dates	CPE Class
Feb 2012	2012 Local government audit training I	July 2014	MHM Employee Benefit Plan Update
July 2012	2012 Local government audit training II	Oct 2014	2014 Local government audit training
Dec 2012	Accounting and audit update	Dec 2014	Accounting and audit update
May 2013	CalCPA School District Conference	Feb 2015	Audit Methodology Update
May 2013	Local Government Audit Training I	May 2015	AICPA Employee Benefit Plan Conference
July 2013	Local Government Audit Training II	May 2015	CalCPA School District Conference
Dec 2013	Accounting and audit update	Sept 2015	Government Internal Controls Update

## **EXTERNAL QUALITY CONTROL REVIEW REPORT**



**CliftonLarsonAllen**

CliftonLarsonAllen LLP  
CLAconnect.com

## System Review Report

To the Shareholders of Mayer Hoffman McCann P.C.  
and the AICPA National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Mayer Hoffman McCann P.C. (the Firm), applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended April 30, 2014. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included engagements performed under the *Government Auditing Standards*; audits of employee benefit plans, and examinations of service organizations [SOC 1<sup>SM</sup> and SOC 2<sup>SM</sup> engagements].

In our opinion, the system of quality control for the accounting and auditing practice of Mayer Hoffman McCann P.C., applicable to engagements not subject to PCAOB permanent inspection, in effect for the year April 30, 2014, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Mayer Hoffman McCann P.C. has received a peer review rating of *pass*.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Milwaukee, WI  
September 4, 2014



An independent member of Nexia International

## **EXAMPLE – STANDARD PROFESSIONAL SERVICES CONTRACT**



**Mayer Hoffman McCann P.C.  
An Independent CPA Firm**

5060 California Avenue, Suite 800  
Bakersfield, California, 93309  
661-325-7500 ph  
661-325-7004 fx  
[www.mhmcpa.com](http://www.mhmcpa.com)

XX, 2015

Board of Retirement of ABC County  
Attn: Jane Smith  
1111 N Orange Ave  
City, CA 90222

Dear Ms. Jane Smith:

We are pleased to confirm the arrangements of our engagement and the nature of the services we will provide the ABC County Employees Retirement System (the "Entity"). This letter, which incorporates the attached Terms and Conditions, constitutes the entire agreement between the parties with respect to Mayer Hoffman McCann P.C.'s performance of the professional services described herein.

**ENGAGEMENT OBJECTIVES**

We will audit the financial statements of the ABC County Employees Retirement System, which will comprise the Statement of Fiduciary Net Position as of XX, 2015, and the related Statements of Changes in Fiduciary Net Position for the year then ended, and the related notes to the financial statements, which collectively comprise the Entity's basic financial statements.

Also, accounting principles generally accepted in the United States of America ("US GAAP") provide for certain required supplementary information ("RSI"), such as management's discussion and analysis ("MD&A"), to supplement the Entity's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the Entity's RSI in accordance with auditing standards generally accepted in the United States of America ("US GAAS"). These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by US GAAP and will be subjected to certain limited procedures, but will not be audited.

1. Management's Discussion and Analysis
2. Schedule of Changes in Net Pension Liability of Participating Employers
3. Schedule of Investment Returns
4. Schedule of Employer Contributions
5. Schedule of Funding Progress – OPEB ABC County Fire Authority
6. Schedule of Employer Contributions – OPEB ABC County Fire Authority

We have also been engaged to report on supplementary information other than RSI that accompanies the Entity's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including

comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, in accordance with US GAAS, and we will provide an opinion in relation to the financial statements as a whole.

1. Schedule of Administrative Expenses
2. Schedule of Investment Expenses
3. Schedule of Payments for Professional Services
4. Statement of Changes in Assets and Liabilities – OPEB Agency Fund

## **OUR RESPONSIBILITIES**

The objective of our audit is the expression of an opinion as to whether the financial statements are fairly presented, in all material respects, in conformity with US GAAP and to report on the fairness of the additional information referred to above when considered in relation to the financial statements taken as a whole.

We will also provide a report, which does not include an opinion, on internal controls related to the financial statements and compliance with the provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The reports on internal control and compliance will each include a paragraph that states the report is solely to describe the scope and testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance and that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance and that the report is not suitable for any other purpose.

## **Audit**

Our audit will be conducted in accordance with US GAAS and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of the accounting records and other procedures we consider necessary to enable us to express such an opinion. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or add an emphasis-of-matter or other-matter paragraph. If our opinion on the financial statements is other than unmodified, we will fully discuss the reasons with management in advance. If, for any reason, we are unable to complete the audit, or are unable to form or have not formed an opinion, we may decline to express an opinion or withdraw this engagement.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts (e.g., tests of the physical existence of inventories, direct confirmation of certain assets and liabilities by correspondence with selected customers, creditors, and financial institutions, etc.). We may also request written representations from the Entity's attorneys as part of the engagement, and they may bill the Entity for responding to this inquiry.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations that are

attributable to the Entity or to acts by management or employees acting on behalf of the Entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal controls, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with US GAAS. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. We will inform the appropriate level of management and those charged with governance of any material errors, fraudulent financial reporting, or misappropriation of assets that comes to our attention. We will also inform the appropriate level of management and those charged with governance of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. Our responsibility, as auditors, is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

### **Internal Control**

Our audit will include obtaining an understanding of the Entity and its environment, including internal controls sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures.

We will obtain an understanding of the design of the relevant controls and whether they have been placed in operation, and we will assess control risk. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Tests of controls relative to the financial statements are required only if control risk is assessed below the maximum level. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal controls or to identify control deficiencies. However, we will inform management and those charged with governance of internal control matters that are required to be communicated under professional standards.

### **Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Entity's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

The services described above do not relieve management or those charged with governance of their responsibilities.

### **THOSE CHARGED WITH GOVERNANCE**

The preparation and presentation of the financial statements of the Entity are the responsibility of management with oversight from those charged with governance. Those charged with governance are also responsible for overseeing the strategic direction of the Entity and any obligations related to its accountability, resolving disagreements between management and us regarding financial reporting, appointing us to perform the services described above, and informing us about all known or suspected fraud involving the Entity. In turn, we will provide those charged with governance with any communications required by the professional standards described above.

### **MANAGEMENT'S RESPONSIBILITIES**

Management is responsible for all management decisions and performing all management functions, and for designating an individual, preferably from senior management, with suitable skill, knowledge, or experience to oversee these services, any bookkeeping services, financial statement preparation services, tax services, or other services we or our associated company CBIZ MHM, LLC provides. Management is responsible for evaluating the adequacy and results of the services performed and accepting responsibility for them.

Management is responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. Management is also responsible for providing us with (a) access to all information they are aware of that is relevant to the preparation and fair presentation of the financial statements, (b) additional information that we may request for the purpose of this engagement, and (c) unrestricted access to persons within the Entity from whom we determine it necessary to obtain information.

Management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities, for the selection and application of accounting principles, for the safeguarding of assets, and for the preparation and fair presentation of the financial statements in conformity with US GAAP even though we may assist management with their preparation. Accordingly, management may be required to acknowledge in the written representation letter our assistance with preparation of the financial statements and that management has reviewed and approved the financial statements and related notes prior to their issuance and has accepted responsibility for them.

Management is responsible for adjusting the financial statements to correct material misstatements and for confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the Entity involving (a) management, (b) employees who have significant roles in internal controls, and (c) others where the fraud could have a material effect on the financial statements. Management is also responsible for informing us of any known allegations of fraud or suspected fraud affecting the Entity received in communications from employees, former employees, regulators, or others. In addition, management is also responsible for identifying and ensuring that the Entity complies with applicable laws, regulations, contracts, agreements, and grants and for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report.

Management is responsible for the preparation of the supplementary information in conformity with the basis described previously in this letter. Management agrees to include our report on the supplementary information

in any document that contains, and indicates that we have reported on, the supplementary information. Management also agrees to include the audited financial statements with any presentation of the supplementary information that includes our report thereon.

During the course of our engagement, we will request information and explanations from management regarding the Entity. At the conclusion of our engagement, we will require, as a precondition to the issuance of our report, that management provide certain representations in a written representation letter. The procedures we will perform in our engagement and the conclusions we reach as a basis for our report will be heavily influenced by the written and oral representations that we receive from management. In view of the foregoing, the Entity agrees to release our firm, its shareholders, and other personnel from any liability and costs relating to our services under this letter resulting from false or misleading representations made to us by any member of the Entity's management.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits or other related studies. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or other studies. Management is responsible for providing its views on our current findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report, and for the timing and format for providing that information.

## **OTHER SERVICES**

The Entity must obtain our written consent before including its financial statements and our report in an offering or other document, or otherwise distributing our report or referencing our Firm in connection with an offering. Management agrees to provide reasonable notice to allow sufficient time for us to perform certain additional procedures. Management will also provide us with a copy of the final reproduced material for our approval before it is distributed. Our fees for such services are in addition to those discussed elsewhere in this letter, and the specific terms of any such future services will be determined at the time the services are to be performed.

As a result of our prior or future services, we might be requested to provide information or documents to the Entity or a third party in a legal, administrative, or arbitration or similar proceeding in which we are not a party. If this occurs, our efforts in complying with such requests will be deemed billable to the Entity as a separate engagement. We shall be entitled to compensation for our time and reasonable reimbursement for our expenses (including legal fees) in complying with the request. For all requests, we will observe the confidentiality requirements of our profession and will notify management promptly of the request.

## **ENGAGEMENT FEES**

We estimate that our fees for the services previously outlined will be \$XX. Our fees are based upon the complexity of the work to be performed, timing of the engagement, experience level of the personnel required, and estimates of the professional time to complete the required services. Our fees do not include expenses in connection with these services, such as for travel, copies and printing, postage, etc., which will be billed separately.

Additionally, our fees are dependent on the availability, quality, and completeness of the Entity's records and, where applicable, upon the Entity's personnel providing the level of assistance identified in the "prepared by

"client" request list distributed at the end of our planning work (e.g., Entity employees preparing confirmations and schedules we request, locating documents selected by us for testing, etc.).

Should our assumptions with respect to these matters be incorrect, or should the condition of the records, degree of cooperation, or other matters beyond our reasonable control require additional commitments by us beyond those upon which our estimated fees are based, we may adjust our fees and planned completion dates. If significant additional time is necessary, we will discuss it with management and arrive at a new fee estimate as soon as reasonably practicable. In addition, fees for any related projects, such as proposed business combinations or research and/or consultation on special business or financial issues, will be billed separately from the fee referred to above and will be subject to separate arrangements.

We consider telephone calls and meetings on accounting and reporting matters to be an integral part of the engagement and no additional fees are charged for these services. If, however, there is a significant transaction or new accounting issue that requires us to spend a substantial amount of time that was not anticipated in our fees, there may be additional billings.

The fee estimate above assumes no adjustments will be necessary for routine accounting entries normally made before the beginning of the engagement. If, for any reason, we are asked to assist in the preparation of these entries, before beginning this service, we will provide an estimate of the time required to perform such services and the additional fees to be billed.

Invoices will be submitted as the work progresses and a final invoice will be submitted upon completion of the services. Invoices are payable upon receipt. If our invoices for this, or any other engagements the Entity may have with us, are not paid within 30 days, we may suspend or terminate our services for this and any other engagements. In the event our work is suspended or terminated as a result of nonpayment, the Entity agrees we will not be responsible for any consequences.

### **OTHER ENGAGEMENT MATTERS**

This letter and the attached Terms and Conditions set forth the rights and responsibilities of the parties with respect to the services to be provided. The Terms and Conditions are an integral part of this agreement. This engagement is being undertaken solely for the benefit of the parties to this agreement and no other person shall be entitled to enforce the terms of this agreement.

Enclosed, as required by *Government Auditing Standards*, is a copy of the report on the most recent peer review of our firm.

The undersigned is the engagement shareholder responsible for supervising the engagement and signing the report.

We appreciate the opportunity to provide these services and believe this letter accurately summarizes the significant terms of our engagement. Please sign the enclosed copy of this letter and return it to us.

Very truly yours,

Jennifer Haney, CPA  
Mayer Hoffman McCann P.C.

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The services and arrangements described in this letter are in accordance with our understanding and are acceptable to us.

ABC County Employees Retirement System

By \_\_\_\_\_  
[ Management Name & Title]

Date \_\_\_\_\_

By \_\_\_\_\_  
[Governance Name & Title]

Date \_\_\_\_\_

**Mayer Hoffman McCann P.C.  
Engagement Letter  
Terms and Conditions**

**A. Services.** These Terms and Conditions and the engagement letter (the "Engagement Letter") to which these Terms and Conditions are attached (these Terms and Conditions, the Engagement Letter are collectively referred to as the "Agreement") constitute the entire agreement between the entity identified in the accompanying Engagement Letter (the "Client" or "you") and Mayer Hoffman McCann P.C. ("MHM"), regarding the services described in the Engagement Letter ("Services"). MHM's acceptance of this engagement is conditioned on confirming that it is independent under applicable standards. You will be informed promptly if MHM determines it is not independent.

**B. Ownership.** Client shall own the copyright in all written material originated and prepared for and delivered to the Client under this Agreement. However, MHM's workpapers, files, and MHM Confidential Information (as defined below) belong exclusively to MHM. The ideas, concepts, know-how, techniques, inventions, discoveries, and improvements developed during the course of this Agreement by MHM personnel, alone or in conjunction with Client personnel, may be used by MHM in any way it deems appropriate, including without limitation by or for its clients or customers, without any obligation to account, notwithstanding any provision in this Agreement to the contrary. MHM is in the business of providing attestation services for a wide variety of clients, and the Client understands that MHM will continue these activities. Accordingly, nothing in this Agreement shall preclude or limit MHM from providing attestation services, consulting services, and/or developing software or materials for itself or other clients, irrespective of the possible similarity of materials that might be delivered to the Client.

**C. Confidentiality.** MHM agrees that all financial, statistical, marketing, and personnel data relating to the Client's business, and other information identified as confidential by the Client, are confidential information of the Client ("Client Confidential Information"). The Client agrees that MHM's proprietary software, tools, and other methodologies and any other information identified as confidential by MHM are confidential information of MHM ("MHM Confidential Information"). Client Confidential Information and MHM Confidential Information are collectively referred to as "Confidential Information." Each party shall use Confidential Information of the other party only for the purposes of this Agreement and shall not disclose such Confidential Information to any third party without the other party's prior written consent, other than to MHM subcontractors hired in connection with this engagement, if any, and to each other's employees on a need-to-know basis in connection with this engagement. Each party agrees to take measures to protect the confidentiality of the other party's Confidential Information that, in the aggregate, are no less protective than those measures it uses to protect the confidentiality of its own Confidential Information, but at a minimum, each party shall take reasonable steps to advise their employees (and, in the case of MHM, its subcontractors, if any) of the confidential nature of the Confidential Information and of the prohibitions on copying or revealing such Confidential Information contained herein. MHM and the Client each agree to require that the other party's Confidential Information be kept in a reasonably secure location.

Neither party shall be obligated to treat as confidential, or otherwise be subject to the restrictions on use, disclosure, or treatment contained in this Agreement for any information disclosed by the other party (the "Disclosing Party") that: (i) otherwise has been or becomes publicly available (including, without limitation, any information filed with any governmental agency and available to the public) other than as the result of a disclosure in breach hereof, (ii) is disclosed by the Disclosing Party to a third party without substantially the same restrictions as set forth herein, (iii) becomes available to the non-Disclosing Party on a non-confidential

basis from a source other than the Disclosing Party, which the non-Disclosing Party does not believe is prohibited from disclosing such information, (iv) is known by the non-Disclosing Party prior to its receipt from the Disclosing Party without any obligation of confidentiality with respect thereto, or (v) is developed by the non-Disclosing Party independently of any disclosures of such information made by the Disclosing Party to the non-Disclosing Party.

Neither party will be liable to the other for inadvertent or accidental disclosure of Confidential Information if the disclosure occurs notwithstanding the party's exercise of the same level of protection and care that such party customarily uses in safeguarding its own confidential information. Notwithstanding the foregoing, either party will be entitled to disclose Confidential Information of the other to a third party to the extent required by valid legal or regulatory process, provided that (and without breaching any legal or regulatory requirement) the party to which the request is made provides the Disclosing Party with prompt written notice and allows the Disclosing Party to seek a restraining order or other appropriate relief.

We may be requested to make certain workpapers or files available to certain regulatory agencies pursuant to authority given to it by law or regulation. If requested, access to such workpapers will be provided under the supervision of MHM's personnel. Furthermore, upon request, we may provide photocopies of selected workpapers to certain regulatory agencies. Certain regulatory agencies may intend, or decide, to distribute the photocopies or information contained therein to others, including other government agencies.

MHM utilizes various benchmarking tools, which provide access to financial benchmarking data related to companies in various industry segments. Notwithstanding any other language in this Agreement, you agree that MHM may submit your financial and other data to be used in these benchmarking tools.

**D. Client Responsibilities.** Client agrees to provide reasonable workspace, administrative support, computer facilities, and other support, which are necessary to perform the Services, including providing high-speed Internet access to our engagement team, if practicable, while working at the Client premises. Client agrees to perform those tasks in a timely fashion and provide the personnel agreed to by the parties. Client personnel assigned to work on matters related to this engagement will be qualified for the tasks for which they are assigned. MHM's performance is dependent on Client carrying out its responsibilities as set out in this Agreement. Client's failure to satisfy its responsibilities under this Agreement may lead to an increase in our fees, depending upon the extent to which we have to perform additional work or reschedule our commitments to deliver the Services, or our inability to provide the Services. Should Client fail to perform any of its obligations under this Agreement, MHM shall not be responsible for any delay or other consequences due to such failure.

**E. Fees and Payment.** Client shall pay MHM the fees set forth in the Engagement Letter. Client shall also be responsible for paying any taxes (such as applicable sales taxes, duties, or goods and services taxes) for which it is legally liable arising from this Agreement. Our invoices will be issued as set out in the Engagement Letter. All invoices will be due upon receipt unless stated otherwise in the Engagement Letter. Services rendered after the expiration of the term of the engagement or in addition to the scope contemplated herein and in the Engagement Letter, such as meetings, planning, etc., will be billed separately at our hourly rates.

**F. Term and Termination; Survival.** This Agreement is effective from the commencement date stated in the Engagement Letter, if any, or where no commencement date is specified, from the date of signature by both parties. If MHM commenced the performance of the Services prior to the execution of this Agreement, this Agreement shall nonetheless cover the performance of such Services. This Agreement will continue until the services and deliverables have been provided unless it is terminated earlier in accordance with the terms

set out herein. MHM shall be under no duty to update or revise its opinion or report, once issued, unless expressly engaged to do so by the Client, and MHM shall be under no duty to accept any such engagement. If we accept such an engagement, we will be required to perform certain procedures required by professional standards.

Either party may terminate this Agreement upon written notice to the other party irrespective of whether MHM has completed the Services. Client will be responsible for fees and expenses incurred through the date the termination notice is received. Where Client terminates this Agreement, Client also will pay MHM for additional costs incurred as a result of the termination.

The following sections of this Agreement will survive completion of the Services or its earlier termination: Confidentiality, Ownership, and such other provisions of this Agreement which by their nature are intended to survive.

**G. General.** This Agreement forms the entire agreement between the parties relating to the Services, and replaces and supersedes any previous proposals, correspondence, understandings, and any other communications, whether written or oral. This agreement shall be binding on all transferees, successors, and assigns of both MHM and you. Neither party shall be liable to the other for any delay or failure to perform any of the services or obligations set forth in this Agreement due to causes beyond its reasonable control. Each party acknowledges that this was a negotiated contract, and as a result, no part of this contract shall be construed against either party based on drafting of the contract. If any provision of this Agreement is determined to be invalid under any applicable statute or rule of law, it is to that extent to be deemed omitted, and the balance of the Agreement shall remain enforceable. The section headings used herein are for reference and convenience only and shall not enter into the interpretation hereof.

No delay or omission by either party in exercising any right or power shall impair such right or power or be construed to be a waiver. A waiver by either party of any of the covenants to be performed by the other or any breach thereof shall not be construed to be a waiver of any succeeding breach or of any other covenant. No waiver or discharge shall be valid unless in writing and signed by an authorized representative of the party against whom such waiver or discharge is sought to be enforced.

It is common practice for professional service firms, in discussions with prospective clients to make reference to prior work, and we would like to have the opportunity to do so with respect to this engagement. On completion of this engagement, MHM will be entitled to use the Client's name, logo(s), and a brief description of the Services in MHM newsletters, publications, or other marketing materials, as well as discussions with prospective clients.

**H. Leased personnel.** In performing our engagement we will lease professional and administrative staff, both of which are employed by CBIZ MHM, LLC or its related entities. These individuals will be under the direct control and supervision of MHM, which is solely responsible for the professional performance of our engagement. Additionally, the professional staff is subject to the standards governing the accounting profession, including the requirement to maintain the confidentiality of client information, and MHM and CBIZ MHM, LLC and its related entities have contractual agreements requiring confidential treatment of all client information.

MHM will use all reasonable efforts to perform the Services in accordance with any agreed upon timeframe. MHM has every expectation that this engagement will be conducted by the professionals designated for this engagement. If for any reason any of those individuals are not able to complete this engagement,

professionals with similar qualifications and experience will be assigned to the engagement. Where any changes are necessary, MHM will give Client reasonable notice of the changes.

**I. Independent Contractor.** It is understood and agreed that each of the parties hereto is an independent contractor and that neither party is, nor shall be considered to be, an agent, partner, joint venturer, or representative of the other. Neither party shall act or represent itself, directly or by implication, as an agent of the other or in any manner assume or create any obligation on behalf of, or in the name of, the other.

**J. Employment offers to our personnel.** During the term of this Agreement and for a period of one year thereafter, the parties agree not to hire, solicit, or attempt to solicit, whether directly or indirectly, the services of any staff, employee, consultant, or subcontractor of the other party without the prior written consent of that party. Violation of this provision shall, in addition to other relief, require the breaching party to compensate the non-breaching party with 100 percent of the solicited person's annual compensation.

Professional standards require us to be independent with respect to the Company in the performance of our services. Any discussions that the Company has with personnel of MHM, CBIZ MHM, LLC, or related entities regarding potential employment with the Company could impair our independence with respect to this engagement. Therefore, we request that you inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence and objectivity. Employment offers to any staff member working on your engagement without our prior knowledge may require substantial additional procedures to ensure the independence and objectivity of our engagement. Any additional costs incurred due to these procedures will be fully billable in addition to our fee.

**K. Safe Environment.** You agree that in any circumstances wherein MHM personnel are required to work at any premises or location operated or controlled by you, you will take all actions and precautions necessary to ensure that Client premises are free from all known or reasonably foreseeable safety hazards, and all forms of harassment and discrimination.

**L. Property.** The workpapers and files that MHM generates in connection with this engagement are the property of MHM. Upon the termination of this engagement, upon request we will return your original records to you. All MHM workpapers and files will be retained, pursuant to MHM's document retention policy.

**M. Electronic Communication.** In the interest of facilitating our services to you, we may communicate by facsimile transmission or by sending electronic mail over the Internet. Such communications may include information that is confidential to you. Our firm employs measures in the use of facsimile machines and computer technology designed to maintain data security. While we will use our best efforts to keep such communications secure in accordance with our obligations under applicable laws and professional standards, we have no control over the unauthorized interception of these communications once they have been sent.

With regard to the electronic dissemination of financial statements, including financial statements published electronically on your Internet website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document. You agree that you shall bear the risk of any inconsistency between the electronic document and the original document.

**N. Governing Law and Severability.** This Agreement shall be governed by, and construed in accordance with, the laws of the State of the MHM office issuing the Engagement Letter (without giving effect to the choice of law principles thereof), and all claims relating to or arising out of this Agreement or related to MHM's

services, whether sounding in contract, tort, or otherwise, shall likewise be governed by the laws of that State (without giving effect to its choice of law principles). If any provision of this Agreement is found by a court of competent jurisdiction to be unenforceable, such provision shall not affect the other provisions, but such unenforceable provision shall be deemed modified to the extent necessary to render it enforceable, preserving to the fullest extent permissible the intent of the parties set forth in this Agreement.

**O. Dispute Resolution.** Because there are inherent difficulties in recalling or preserving information as the period after an engagement increases, you agree that, notwithstanding any applicable statute of limitations, any claim based on this engagement must be filed within 24 months after performance of our service for continuing clients and 12 months for clients who discontinue their relationship with MHM, unless you have previously provided us with a written notice of a specific defect in our services that forms the basis of the claim.

If any dispute, controversy, or claim of any kind or type, whether based on contract, tort, statute, regulation, or otherwise, arises out of, or connected with, or relating in any way to this Agreement, or the relationship or the obligations of the parties, including without limitation any dispute as to the existence, validity, construction, interpretation, negotiation, performance, non-performance, breach, termination, or enforceability of this Agreement (the "Dispute"), and if (in the opinion of any party) the Dispute cannot be settled through direct discussions between the parties, the parties agree to first endeavor to resolve the Dispute through mediation under the Commercial Mediation Rules of the American Arbitration Association ("AAA"), before resorting to filing a lawsuit or to otherwise seek to enforce any party's rights. In both direct discussions and in mediation, the parties will exert their best efforts to discuss with each other in good faith their respective positions in an attempt to finally resolve the Dispute. The parties agree to share equally the costs and expenses of the mediation (which shall not include the costs incurred by each party for its own legal representation in connection with the mediation).

Each party may disclose any facts to the other party or to the mediator which it, in good faith, considers necessary to resolve the matter. All such discussions, however, will be for the purpose of assisting in settlement efforts and will not be admissible in any subsequent litigation against the disclosing party. Except as agreed by both parties, the mediator will keep confidential all information disclosed during negotiations. The mediator may not act as a witness for either party in any subsequent arbitration between the parties. The mediation proceedings will conclude within 60 days from receipt of the written notice unless extended or terminated sooner by mutual consent. Each party will be responsible for its own expenses. The fees and expenses of the mediator, if any, will be borne equally by the parties.

If the parties cannot resolve the Dispute through mediation, either party may pursue action in a court of competent jurisdiction as set forth in these Terms and Conditions. Each of the parties irrevocably waives any right to trial by jury in any such action or in any other proceeding arising out of or relating to the Dispute or this Agreement.

**P. Limitation on Damages.** Unless otherwise prohibited by law or applicable professional standard, you agree that MHM and its personnel shall not be liable to you for any claims, liabilities, or expenses relating to this engagement for an aggregate amount in excess of the fees paid by you to MHM pursuant to this engagement, except to the extent finally judicially determined to have resulted from the bad faith or intentional misconduct of MHM. Unless otherwise prohibited by law or applicable professional standard, in no event shall MHM or its personnel be liable for consequential, special, indirect, incidental, punitive, or exemplary losses or damages relating to this engagement. This limitation on liability provision shall apply to the fullest extent of the law, whether in contract, statute, tort (such as negligence), professional standard, or otherwise.

## **EXAMPLE – INDEPENDENT AUDITORS’ REPORT**



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## INDEPENDENT AUDITORS' REPORT

To the Board of Retirement of ABC County Employees Retirement System  
ABC County, CA

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the ABC Employee Retirement System (the "System") as of and for the year ended XX, 2015, and the related notes to the financial statements which collectively comprise the System's basic financial statements as listed in the table of content.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the System, as of XX, 2015, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

During the year ended XX, 2015, the Plan implemented Governmental Accounting Standards Board (GASB) Statement No. XX. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of changes in the net pension liability and related ratios, schedule of contributions, and schedule of investment returns be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The other supplemental information, *schedules relevant to ABC Retirement System*. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Board of Retirement  
ABC County Employees' Retirement Systems  
Page 3

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated XX, 2016 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the System's internal control over financial reporting and compliance.

Bakersfield, California  
XX, 2016



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**INDEPENDENT AUDITORS' REPORT**

To the Board of Retirement of ABC County Employees Retirement System  
ABC County, CA

We have audited, in accordance with the 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, the financial statements the ABC County Employees' Retirement System (the "System") as of and for the year ended XX, 2015, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated XX, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bakersfield, California  
XX, 2016



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## INDEPENDENT AUDITORS' REPORT

To the Board of Retirement of the ABC County Employees' Retirement System  
ABC County, CA

### Report on the Schedules

We have audited the accompanying schedule of employer allocations of the ABC County Employees' Retirement System (the "System") as of and for the year ended XX, 2015, and the related notes. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified column totals) included in the accompanying schedule of pension amounts by employer of the System as of and for the year ended XX, 2015, and the related notes.

### Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes

evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities for the System as of and for the year ended XX, 2015, in accordance with accounting principles generally accepted in the United States of America.

### **Other Matter**

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the System as of and for the year ended XX, 2015, and our report thereon, dated XX, 2015, expressed an unmodified opinion on those financial statements.

### **Restriction on Use**

Our report is intended solely for the information and use of the System's management, the Board of Retirement of the System, the System's employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

Bakersfield, CA  
XX, 2016

## **ADDITIONAL DATA**

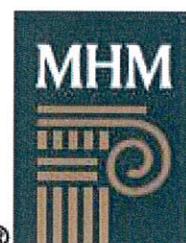
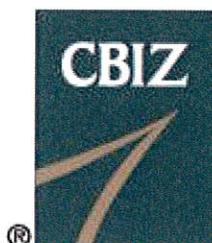
# THE 2015 accountingTODAY TOP 100 FIRMS

RANK			Year end	REVENUE \$ mn.	Offices	PERSONNEL			FEE SPLIT (in percent)				
15	Firm	Headquarters	Chief executive			Partners	Professionals	Total emps.	A&A	Tax	MAS	Other	
1	Deloitte <sup>§</sup>	New York City	Cathy Engelbert	May	14,908.00	107	3,030	50,562	64,884	29	18	48	5
2	PwC <sup>§</sup>	New York City	Robert Moritz	June	11,724.00	72	2,691	33,024	41,571	41	28	31	0
3	Ernst & Young <sup>§</sup>	New York City	Steve Howe	June	9,900.00	80	2,700	26,100	34,000	36	29	28	7
4	KPMG <sup>§1</sup>	New York City	John Veihmeyer	Sept	6,870.00	101	1,813	20,113	27,102	34	28	38	0
5	McGladrey <sup>2</sup>	Chicago	Joe Adams	April	1,470.74	75	644	5,075	7,062	41	36	22	1
6	Grant Thornton	Chicago	J. Michael McGuire	Dec	1,382.51	57	529	4,692	6,456	41	28	31	0
7	BDO	Chicago	Wayne Berson	June	833.00	52	346	2,967	4,041	58	32	10	0
8	Crowe Horwath*	Chicago	Charles Allen	Dec	686.60	29	257	2,315	3,094	28	24	48	0
9	CBIZ / Mayer Hoffman McCann <sup>+3</sup>	Cleveland	Chris Spurio / Bill Hancock	Dec	600.00	103	429	1,832	2,914	30	35	35	0
10	CliftonLarsonAllen	Minneapolis	Denny Schleper	Dec	598.40	29	225	3,245	3,799	40	33	9	16
11	CohnReznick	New York City	Thomas Marino / Kenneth Baggett	Jan	575.00	26	274	1,850	2,674	55	27	6	12
12	Baker Tilly Virchow Krause	Chicago	Timothy Christen	May	475.45	29	156	2,083	2,468	44	33	19	4
13	BKD	Springfield, Mo.	Theodore Dickman	May	445.80	34	245	1,525	2,203	48	31	21	0
14	Plante Moran	Southfield, Mich.	Gordon Krater	June	433.07	20	262	1,435	2,066	41	26	33	0
15	Moss Adams	Seattle	Chris Schmidt	Dec	429.00	20	265	1,401	2,176	46	37	17	0
16	Marcum	New York City	Jeffrey Weiner	Dec	385.40	17	154	831	1,248	40	41	6	13
17	Dixon Hughes Goodman	Charlotte, N.C.	Matt Snow	Dec	338.00	29	157	1,222	1,714	35	34	31	0
18	EisnerAmper	New York City	Charles Weinstein	Jan	282.50	6	172	996	1,168	49	39	12	0
19	UHY Advisors Inc. <sup>4</sup>	Chicago	Anthony Frabotta	Dec	203.59	15	99	724	994	34	46	19	1
20	Eide Bailly	Fargo, N.D.	Dave Stende	April	195.40	22	107	1,191	1,591	42	39	9	10
21	Wipfli <sup>5</sup>	Milwaukee	Rick Dreher	May	180.99	22	148	950	1,318	24	28	48	0
22	Citron Cooperman & Co.	New York City	Joel Cooperman	Dec	175.00	6	144	410	649	48	40	7	5
23	Carr, Riggs & Ingram	Enterprise, Ala.	William Carr	Sept	171.08	21	130	674	943	45	41	14	0
24	WeiserMazars	New York City	Douglas Phillips	Aug	157.60	8	109	497	734	40	40	20	0
25	Cherry Bekaert	Richmond, Va.	Howard Kies	April	130.80	12	51	576	796	44	46	10	0

**Key and notes:** Last year's rankings have been revised based on 2013 revenue provided by firms. Some firms' rankings will therefore differ from those reported last year.  
 \* Firm estimate   † Accounting Today estimate   § Gross revenue   NC No change   NA Not available or not applicable   NR Not ranked

<sup>1</sup> In 2014, KPMG modified the allocation of revenues for inter-function work, so this year's figures by fee split are not on a like basis to those published in previous years' reports. There is no impact on overall firm revenues. For its fee split, the firm reported both rounded percentages (given here), and exact dollar amounts (given in our Databank.) Office figure comprises business offices, as opposed to every physical location. <sup>2</sup> For its fee split, McGladrey reported both rounded percentages (given here), and exact dollar amounts (given in our Databank on page 5.) <sup>3</sup> Revenue from two service lines not previously reported is included, and 2013 revenue have been restated for comparison purposes. Office figures are for CBIZ; MHM has 34 offices. <sup>4</sup> UHY Advisors and UHY LLP are affiliated through an alternative practice structure. <sup>5</sup> Figures do not include mergers concluded late in 2014.

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