



# Federated City Employees' Retirement System Police and Fire Department Retirement Plan

Presentation to the Joint Audit Committees and Management  
Fiscal Year 2024 Audit Plan

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# Your team

We're pleased to introduce your team — a group of world-class professionals to meet your unique needs. At MGO, we work as a roundtable of advisors to align and optimize all areas of your financial life with your current teams.

## San Jose Retirement Plans

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# Audit Scope, Objectives and Deliverables

## Scope

### Federated City Employees' Retirement System Basic Financial Statements

- Defined Benefit Pension Plan
- Postemployment Healthcare Plan

### Police and Fire Department Retirement Plan Basic Financial Statements

- Defined Benefit Pension Plan
- Postemployment Healthcare Plan
- Police and Fire Department Healthcare Sub trusts

### Notes to the Basic Financial Statements

## Objectives

### Opinions

- Gather sufficient and appropriate audit evidence to obtain reasonable assurance whether financial statements are free of material misstatement

### In-Relation to Opinions

- Supplementary information (SI)

### Other Information

- Read and consider whether a material inconsistency exists between the other information and the financial statements
- Provide consultation as necessary

## Deliverables

### Independent Auditor's Reports

- Opinion on basic financial statements
- In-relation to opinion on SI

### Internal Controls and Compliance (GAS)

- Report on internal controls
- Report on compliance
- No opinion or assurance

### Reports to the Boards of Administration

- Required Communications

### Management Letter

- Observations

# Audit Timeline



# Audit Process

## Planning

### Client Acceptance

- Independence
- Predecessor Auditor Inquiries
- Engagement Letter

### Present Audit Plan to Audit Committees

- Planned scope and timing of audits

### Entrance Conference

- Introductions
- Finalize audit timeline and due dates

## Execution

### Interim

- Identify and evaluate internal controls
- Perform risk assessment
- Tests of controls over significant transaction cycles
- Tests of actuarial member census data

### Year-End

- Tests of year-end balances and disclosures
- Exit conference with ORS
- Review draft reports

## Reporting

### Presentation of Audit Results to Audit Committees

- Significant audit findings
- Audit results

### Report Issuance

- Prepare and issue deliverables

# Auditor's Responsibilities

## We are responsible for:

- ✓ Exercising professional judgment and maintain professional skepticism throughout the audit
- ✓ Assessing the risk of material misstatement of the financial statements, whether due to fraud or error, and designing audit procedures to respond to those risks
- ✓ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures (but not for expressing an opinion on the effectiveness)
- ✓ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management
- ✓ Concluding whether there are conditions or events that raise substantial doubt about the Retirement Plans' ability to continue as a going concern
- ✓ Reading other information and considering whether it is materially consistent with the financial statements
- ✓ Communicating with those charged with governance the planned scope and timing of the audit, significant audit findings, and certain internal-control related matters identified during the audit

# Management's Responsibilities

## Management is responsible for:

- ✓ Preparation and fair presentation of the financial statements in accordance with U.S. GAAP
- ✓ Designing, implementing, and maintaining effective internal control over financial reporting
- ✓ Informing us of its knowledge of any allegations for fraud or suspected fraud
- ✓ Evaluating whether there are conditions or events that raise substantial doubt about the Retirement Plans' ability to continue as a going concern
- ✓ Providing us with written representations



# Materiality

The magnitude of an omission or misstatement that likely influences a reasonable user's judgment about the financial statements.

We apply the concept of materiality in the following:



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Planning and performing the audit.



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Evaluating the effect of identified misstatements or noncompliance on the audit and the effect of uncorrected misstatements.



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Forming the opinion in our report on the financial statements.



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Determining or reporting in accordance with *Government Auditing Standards* or other compliance reporting requirements.

# Significant Risks of Material Misstatement

## Management Override of Controls

### Planned Response

- Obtain understanding of controls over journal entries
- Inquiries of individuals
- Test a sample of journal entries using a targeted risk-based approach and data mining software
- Test of manual adjustments and topside entries

## Revenue Recognition

### Planned Response

- Obtain understanding of contribution requirements including laws and regulations and plan provisions
- Perform tests of covered payroll using data mining software
- Perform tests of investment valuations and related income

## Investment Valuation

### Planned Response

- Walkthrough of controls
- Review SOC report(s)
- Confirm investment balances with custodian bank and managers
- Perform tests of valuations

# Significant Risks of Material Misstatement

## Contributions

### Planned Response

- Walkthrough of controls
- High level analytics using covered payroll and contribution rates
- Data analytics using data mining software

## Benefit Payments

### Planned Response

- Walkthrough and test of controls, including eligibility and pension calculations
- Data analytics using data mining software

## Actuarial Valuations and Member Census Data

### Planned Response

- Review actuarial calculations, including methodologies and assumptions
- Results of cross-over test
- Test significant elements of member census data for accuracy and completeness

# Upcoming GASB Pronouncements

Management to review the following pronouncements and determine their applicability to the Retirement Plans.

## GASB 99

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Omnibus 2022

Effective for years end June 30, 2022, 2023, and 2024

## GASB 100

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Accounting Changes and Error Corrections – an amendment of GASB 62

Effective for year end June 30, 2024

## GASB 101

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Compensated Absences

Effective for year end June 30, 2025

## GASB 102

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Certain Risk Disclosures

Effective for year end June 30, 2025

# Contact Information

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Questions?