

Memorandum

TO: Audit Committees of the
Police & Fire Department Retirement Plan
and Federated City Employees' Retirement System

FROM: John Flynn

SUBJECT: Internal Audit Contract – First Amendment

DATE: May 21, 2026

RECOMMENDATION

Discussion and action to approve the First Amendment to the agreement with Baker Tilly for internal audit consulting services.

BACKGROUND

The Boards of Administration for the San José Police and Fire Department Retirement Plan (PF) and Federated City Employees' Retirement System (FCERS) entered into agreements with Baker Tilly Advisory Group, LP ("Baker Tilly") in December 2025 to provide internal audit consulting services in support of the Office of Retirement Services (ORS).

The agreements established a comprehensive internal audit function, including completion of a Risk Assessment, development of a five-year Internal Audit Plan, execution of annual internal audit engagements, regular reporting to the Audit Committees and Boards, and on-going monitoring of remediation efforts and audit issue tracking. The not-to-exceed compensation for each agreement is \$400,000 for the initial term.

Following the start of the engagement, Baker Tilly, in agreement with ORS staff, identified opportunities to clarify certain aspects of the agreements, including refining scope of specific tasks, clarifying deliverables, and better aligning the agreements with ongoing internal audit activities and governance processes.

ANALYSIS

The changes reflected in the amendments are summarized below across key areas:

(1) Improved clarity of deliverables and payment structure

The amendments separate deliverables into draft and final versions for certain tasks (e.g. Task No. 1 Risk Assessment and Task No. 2 Five-Year Internal Audit Plan) and align timing of payments to these milestones. This allows for more timely and consistent invoicing tied to work progress, while maintaining accountability for deliverables.

(2) Streamlining of Services with Audit Cycle

A couple tasks were consolidated and revised to better reflect internal audit activities that are recurring and performed on an annual basis.

For example, the former Task No. 9 (Second Annual Internal Audit Plan) was removed and incorporated into Task No. 8. Under the amended Task No. 8, an initial Annual Internal Audit Plan will be developed, followed by subsequent Annual Internal Audit Plan(s) that reflect changes in risks and priorities.

(3) Improved Alignment of Services and Costs

Task No. 5 – Annual and Quarterly Reports and Open Findings has been revised to better reflect its core purpose of reporting to the Audit Committees and Boards, as well as monitoring audit findings and remediation efforts. Activities such as investigations related to fraud or material control failures (see below) have been more appropriately aligned under other tasks, providing clearer delineation of responsibilities and improving overall organization of the scope.

In addition, pricing for Task No. 5 was previously incorporated within broader scope areas without being specifically identified. The amendment now defines hours and associated costs of Task No. 5, improving transparency and aligning compensation with the ongoing nature of these services.

(4) Creation of an Internal Audit Administration Task

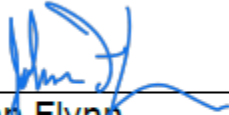
A new task – No.13 Internal Audit Administration has been added to address administrative activities, and activities that could vary in scope and cost including:

- Investigations related to fraud or material control failures
- Regular status updates with ORS leadership
- Other administrative support, authorized by the CEO

Because the scope and timing of these activities may vary, this work will be performed through a Statement of Work (SOW) process rather than a fixed-fee structure.

CONCLUSION

ORS staff recommend approval of the First Amendment to the agreements with Baker Tilly. The proposed updates improve clarity of scope and deliverables, strengthen alignment with ongoing internal audit processes, and enhance transparency in pricing for defined services. The amendment does not impact the not-to-exceed compensation, which remains \$400,000 for each agreement for the initial term.



John Flynn
CEO, ORS