



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

Presentation to the Joint Audit Committees and Management
Fiscal Year 2026 Audit Plan

PRESENTED BY
Craig Harner
Partner

Yia Yang
Supervisor

May 21, 2026



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Engagement 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

Steve Diess
EA, MAAA
Actuarial
Specialist

Annie Louie
CPA, CISA,
CGMA
Partner

Craig Harner
CPA, CFE
Partner

Yia Yang
Supervisor

MGO
Professional Staff

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/Continuance

- Independence Checks
- Engagement Letter
- PBC List

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:



Planning and performing the audit.



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



Forming the opinion in our report on the financial statements.



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 103

Financial Reporting Model Improvements

Effective for year end June 30, 2026

GASB 104

Disclosure of Certain Capital Assets

Effective for year end June 30, 2026

GASB 105

Subsequent Events

Effective for year end June 30, 2027

Contact Information

Annie Louie
Partner

Tel: (925) 395-2831
alouie@mgocpa.com

Craig Harner
Partner

Tel: (916) 642-7090
charner@mgocpa.com

Yia Yang
Supervisor

Tel: (916) 642-7025
yyang@mgocpa.com

Questions?