SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

ITEM
2.6
(ID # 9483)

MEETING DATE:
Tuesday, April 16, 2019

FROM : HUMAN RESOURCES:

SUBJECT: HUMAN RESOURCES: County of Riverside Part-Time and Temporary Employees' 401(a) Retirement Plan Annual Audit Report for the year ended June 30, 2016; Independent Auditor's Report on Internal Control over Financial Reporting Standards; Statement on Auditing Standard 114 Letter (SAS 114); and Management Letter dated June 30, 2016, All Districts. [$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file the Independent Auditors Report: County of Riverside Part-Time and Temporary Employees' 401(a) Retirement Plan Annual Financial Report as of June 30, 2016 (Attachment A);
2. Receive and file the Statement on Auditing Standard 114 Letter (SAS 114) dated March 14, 2019 (Attachment B); and
3. Receive and file the Independent Auditor's Report on Internal Control over Financial Reporting and other matters on the County of Riverside Part-Time and Temporary Employees' 401(a) Retirement Plan Management Letter June 30, 2016 (Attachment C).

ACTION:Consent

Brenda Diederichs
Brenda Diederichs, Assistant CEO / Human Resources Director 4/9/2019

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Washington, seconded by Supervisor Perez and duly carried, IT WAS ORDERED that the above matter is received and filed as recommended.

Ayes:	Jeffries, Washington, Perez and Hewitt
Nays:	None
Absent:	Spiegel
Date:	April 16, 2019
xc:	HR

Kecia Harper
Clerk of the Board
By: M. Willis
Deputy

SUBMITTAL TO THE BOARD OF SUPERVISORS COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	$ 0	$ 0	$ 0	$ 0
NET COUNTY COST	$ 0	$ 0	$ 0	$ 0
SOURCE OF FUNDS: N/A			Budget Adjustment: No	
			For Fiscal Year: 2018/19	

C.E.O. RECOMMENDATION: Approve

BACKGROUND:

Summary

The County's Part-Time and Temporary Employees' Retirement Plan (the Plan) was audited by Brown Armstrong, a certified public accounting firm. The audit consisted of auditing the financial statements for the Plan for the fiscal year ending June 30, 2016. Brown Armstrong issued their finalized report, dated March 14, 2019. The Plan audit provides assurance that the financial statements are presented fairly, in all material respects, the fiduciary net position of the Plan as of June 30, 2016.

The external auditors also report through the management letter on internal control over financial reporting, compliance and other matters, and the Plan's response to findings.

Finally, the external auditors must communicate, with those charged with governance, matters related to the financial statement audit that in the auditor's opinion are significant and relevant. The SAS 114 report is attached and delineates these items.

Impact on Residents and Businesses

There is no impact on the residents or businesses of the County.

Attachments:

Attachment A. County of Riverside Part-Time and Temporary Employees' 401(a) Retirement Plan - Annual Financial Report as of June 30, 2016

Attachment B. Statement on Auditing Standard 114 Letter (SAS 114) dated March 14, 2019

Attachment C. County of Riverside Part-Time and Temporary Employees' 401(a) Retirement Plan - Management Letter June 30, 2016

SUBMITTAL TO THE BOARD OF SUPERVISORS COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

Imelda Delos Santos 4/9/2019

COUNTY OF RIVERSIDE
PART-TIME AND TEMPORARY EMPLOYEES'
401(a) RETIREMENT PLAN

ANNUAL FINANCIAL REPORT

JUNE 30, 2016

COUNTY OF RIVERSIDE
PART-TIME AND TEMPORARY EMPLOYEES'
401(a) RETIREMENT PLAN
JUNE 30, 2016

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Supervisors
County of Riverside, California

Report on the Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position of the County of Riverside Part-Time and Temporary Employees' 401(a) Retirement Plan (the Plan) as of June 30, 2016, the related Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Plan's 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 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 of 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 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 Plan as of June 30, 2016, and the changes in its fiduciary net position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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.

Management has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2019, on our consideration of the Plan'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 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 the Plan's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
March 14, 2019

COUNTY OF RIVERSIDE
PART-TIME AND TEMPORARY EMPLOYEES' 401(a) RETIREMENT PLAN
STATEMENT OF FIDUCIARY NET POSITION
AS OF JUNE 30, 2016

	2016 Defined Benefit Pension Plan
Assets	
Cash and Cash Equivalents	$ 390,130
Contributions Receivable	198,087
Investments, at Fair Value	
Mutual Funds	31,545,629
Total Assets	$ 32,133,846
Fiduciary Net Position Restricted for Pension Benefits	$ 32,133,846

The accompanying notes are an integral part of these financial statements.

COUNTY OF RIVERSIDE
PART-TIME AND TEMPORARY EMPLOYEES' 401(a) RETIREMENT PLAN
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	2016
Additions	
Contributions	
Employers' Contributions	$ 667,952
Members' Contributions	1,399,254
Total Contributions	2,067,206
Net Investment Income (Loss)	
Net Depreciation in Fair Value of Investments	(107,553)
Realized Loss	(386,228)
Interest and Dividends	402,780
Net Investment Loss	(91,001)
Total Additions	1,976,205
Deductions	
Benefit Payments	1,506,614
Administrative and Other Expenses	
General Administrative Expenses	100,000
Trust Fees	114,623
Total Administrative and Other Expenses	214,623
Total Deductions	1,721,237
Changes in Fiduciary Net Position	254,968
Fiduciary Net Position Restricted for Pension Benefits	
Beginning of Year	31,878,878
End of Year	$ 32,133,846

The accompanying notes are an integral part of these financial statements.

NOTE 1 – DEFINED BENEFIT PENSION PLAN DESCRIPTION

Plan Description

The County of Riverside Part-Time and Temporary Employees' 401(a) Retirement Plan (the Plan) is the public employee retirement system established by the County of Riverside (County) to provide retirement benefits to eligible employees as a substitute for benefits under social security. The Plan is an Internal Revenue Service (IRS) Section 401(a) defined benefit plan. This Plan is self-funded and self-administered. Effective July 20, 2010, the County Board of Supervisors appointed U.S. Bank (the Trustee) as the Plan's investment consultant, investment manager, and trustee. The County also developed the County of Riverside Deferred Compensation Advisory Committee (the Committee) to oversee the Plan and the Trustee. Contributions made to the Plan are deposited with U.S. Bank, who maintains the responsibility of investing contributions in a diversified portfolio and reporting at fair value.

Benefits Provided

Retirement benefits are determined as 2% of the employee's compensation and payable as a single life annuity. The eligible retirement age is 65. Participants are immediately 100% vested in the Plan upon enrollment. Benefits are payable for the life of the employee only. The normal retirement benefit is accrued to the date of termination. A lump sum distribution is paid if the actuarial equivalent benefit is less than $5,000. Actuarial Equivalence for this purpose is based on the greater of the factor produced under the UP1984 unisex mortality table at 6% or the applicable mortality table and interest rate under 417(e).

Membership Summary

At June 30, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	231
Inactive employees entitled to but not yet receiving benefits	6,666
Active employees	2,397
Total	9,294

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Plan's financial statements are presented on the accrual basis of accounting. Employer and employee contributions that should have been made in the fiscal year based on the actuarially determined contribution rates or amounts are recognized as revenues of that fiscal year. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Reporting Entity

The Plan, governed by the County Board of Supervisors and considered as an independent entity, is a blended component unit of the County in accordance with Statement No. 14, as amended by Statement No. 39 and amended further by Statement No. 61, of the Governmental Accounting Standards Board (GASB). The Plan's annual financial statements are included in the County's financial reports as a pension trust fund.

NOTE 2 – <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

Cash Equivalents

The Plan's cash and short-term investments are managed by U.S. Bank.

Method Used to Value Investments

Investments are carried at fair value. Fair values for investments are derived by various methods as indicated in the following table:

Investments	Source
Publicly traded mutual funds with equity and and fixed income strategies	Most recent sales price as of the fiscal year-end. International securities reflect currency exchange rates in effect at June 30, 2016.

Securities Transactions and Related Investment Income

Securities transactions are accounted for on a trade date basis. Interest income is recognized when earned and dividend income is recognized on the ex-dividend date. Stock dividends or stock splits are recorded as memo items and do not affect the total value of the securities.

Realized gains and losses, along with unrealized gains and losses on investments, are reported as "net appreciation/(depreciation) in fair value of investments."

The realized gain/(loss) on the sale of securities was computed as the difference between the proceeds of sale in 2016 and the carrying cost of the securities at June 30, 2016, or the original cost of the securities when acquired. The calculation of realized gains/(losses) is independent of the calculation of net appreciation/(depreciation) in fair value of investments. Unrealized gain/(loss) on investments sold in the current year that had been held for more than one year were included in the net appreciation/(depreciation) reported in prior years and the current year.

Contribution Receivable

County and member contributions made in the following year for the current year were accrued in accordance with accounting principles generally accepted in the United States of America.

Implementation of Current Accounting Standards

GASB Statement No. 72 – In February of 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application.* The objective of this Statement is to address accounting and financial reporting issues related to fair value measurements. The statement provides guidance for determining a fair value measurement for financial reporting purposes. The Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. GASB Statement No. 72 is effective for periods beginning after June 15, 2015. Refer to Note 4.

GASB Statement No. 73 – In June of 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68.* The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. GASB Statement No. 73 is effective for periods beginning after June 15, 2015. The Plan's fiduciary net position was not materially affected by the implementation of this Statement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Implementation of Current Accounting Standards (Continued)

GASB Statement No. 76 – In June of 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this Statement is to identify in the context of current governmental financial reporting environment the hierarchy of accounting principles generally accepted in the United States of America. The "generally accepted accounting principles hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with accounting principles generally accepted in the United States of America and the framework for selecting those principles. GASB Statement No. 76 is effective for periods beginning after June 15, 2015. There was no effect of the implementation of this Statement on the Plan's financial statements.

Future Accounting Standards

GASB Statement No. 74 – In June of 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans.* The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. GASB Statement No. 74 is effective for periods beginning after June 15, 2016. The Plan has elected not to early implement this Statement.

GASB Statement No. 75 – In June of 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions.* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. GASB Statement No. 75 is effective for periods beginning after June 15, 2017. The Plan has elected not to early implement this Statement.

GASB Statement No. 77 – In August of 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures.* The objective of this Statement is to assure financial statements prepared by state and local governments in conformity with accounting principles generally accepted in the United States of America provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. GASB Statement No. 77 is effective for periods beginning after December 15, 2015. The Plan has elected not to early implement this Statement.

GASB Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.* The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. The Plan has elected not to early implement this Statement.

GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants.* The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23-26, and 40, which are effective for reporting periods beginning after December 15, 2015. The Plan has elected not to early implement this Statement.

GASB Statement No. 80 – *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14.* The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The Plan has elected not to early implement this Statement.

GASB Statement No. 81 – *Irrevocable Split-Interest Agreements.* The requirements of this Statement are effective for periods beginning after December 15, 2016. The Plan has elected not to early implement this Statement.

NOTE 2 – <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

<u>Future Accounting Standards</u> (Continued)

GASB Statement No. 82 – *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73.* The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The Plan has elected not to early implement this Statement.

GASB Statement No. 83 – *Certain Asset Retirement Obligations.* The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The Plan has elected not to early implement this Statement.

GASB Statement No. 84 – *Fiduciary Activities.* The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The Plan has elected not to early implement this Statement.

GASB Statement No. 85 – *Omnibus 2017.* The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The Plan has elected not to early implement this Statement.

GASB Statement No. 86 – *Certain Debt Extinguishment Issues.* The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The Plan has elected not to early implement this Statement.

GASB Statement No. 87 – *Leases.* The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The Plan has elected not to early implement this Statement.

GASB Statement No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements.* The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The Plan has elected not to early implement this Statement.

GASB Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period.* The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The Plan has elected not to early implement this Statement.

GASB Statement No. 90 – *Majority Equity Interests – an amendment of GASB Statement No. 14 and No. 61.* The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The Plan has elected not to early implement this Statement.

NOTE 3 – <u>CASH AND CASH EQUIVALENTS</u>

The carrying value of cash and cash equivalents at June 30, 2016, consists of the following:

	2016 Amount
Cash	$ 18,336
Money Market Fund	371,794
Total Cash and Cash Equivalents	$ 390,130

NOTE 4 – INVESTMENTS

The Plan owned the following investments at June 30, 2016:

	2016 Fair Value
Investments-Categorized	
Mutual Funds	
Equity	$ 21,569,420
Fixed Income	9,976,209
Total Investments-Categorized	$ 31,545,629

GASB Statement No. 40, *Deposits and Investments Risk Disclosures,* establishes and modifies disclosure requirements related to the following:

- Credit risk
- Custodial credit risk
- Concentration of credit risk
- Interest rate risk
- Foreign currency risk

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Plan is limited to credit risk due to the nature of the investments in mutual funds.

Custodial Credit Risk – The custodial credit risk represents the risk that, in the event of the failure of the counterparty of a transaction, the Plan will not be able to recover the value of deposits and investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the Plan's name, and held by the counterparty. The Plan's investment securities are not exposed to custodial credit risk because all securities are held by the Plan's custodial bank in the Plan's name, or by other qualified third party administrator trust accounts.

Concentration of Credit Risk – This risk represents the potential loss attributable to the magnitude of the Plan's investments in a single issuer. As of June 30, 2016, the Plan did not hold any investments in any one issuer that would represent five percent (5%) or more of total investments.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a fixed income portfolio to changes in interest rates. It is calculated as the weighted average time to receive a bond's coupon and principal payments. The longer the duration of a portfolio, the greater its price sensitivity to changes in interest rates. The Plan is not subject to interest rate risk as the Plan is not invested directly in any fixed income portfolios.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates may adversely affect the fair value of an investment. The Plan may invest in global mutual funds but they are still traded on the U.S. stock market in U.S. dollars in accordance with their investment guidelines pertaining to these types of investments.

Summary of Investment Policy

The Committee established an Investment Policy in accordance with applicable local, State, and Federal laws. The Committee exercises authority and control over the management of the Plan's assets by setting policy which the Trustee executes either internally or through the use of external prudent experts. The Committee oversees and guides the Plan subject to the following basic fiduciary responsibilities:

Maintain an appropriate asset allocation based on a total return policy that is compatible with the County's policies, while still having the potential to produce positive real returns.

NOTE 4 – INVESTMENTS (Continued)

Fair Value Measurements

The Plan categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. These principles recognize a three-tiered fair value hierarchy, as follows:

Level 1: Investments reflect prices quoted in active markets;
Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active; and
Level 3: Investments reflect prices based upon unobservable sources.

The Plan has the following recurring fair value measurements as of June 30, 2016:

		Fair Value Measurements Using		
Investments by Fair Value Level	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds-Equity	$ 21,569,420	$ 21,569,420	$ -	$ -
Mutual Funds-Fixed Income	9,976,209	9,976,209	-	-
	31,545,629	31,545,629	-	-
Total Investments Measured at Fair Value	$ 31,545,629	$ 31,545,629	$ -	$ -

NOTE 5 – CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

The funding objective of the Plan is to establish contribution rates that, over time, are likely to remain as a level percentage of payroll unless Plan benefit provisions are changed. Actuarial valuations involve estimates and make assumptions about the probability of events far into the future, therefore actuarially determined rates are subject to continual revision as results are compared to past expectations and new estimates are made about the future.

Contribution rates are calculated by the actuary using the Entry Age Normal Funding Method (Cost Method) and the Market Value of Assets Valuation Method. The required contribution rates are expressed as a percentage of covered payroll. The 2016 contribution rates were determined using the actuarial valuations performed as of July 1, 2015.

Participants in the Plan are required to contribute 3.75% of their compensation to the Plan. According to the July 1, 2015 valuation, the County's current required contribution rate is 0.5%, however, the County elected to contribute 1.60% of payroll in order to obtain a 90% target funded ratio within 5 years. The Plan's current funded ratio is 82.84%. The Plan actuary annually calculates the minimum recommended employer contribution rate through preparation of an actuarial valuation report and the County determines the contribution rates. Administrative costs of the Plan are paid by the Trustee from Plan assets.

NOTE 6 – NET PENSION LIABILITY AND SIGNIFICANT ASSUMPTIONS

Net Pension Liability

The Plan is a single-employer pension plan with a reporting date of June 30, 2016. Measurements as of the reporting date are based on the fair value of assets as of June 30, 2016, and the Total Pension Liability as of the valuation date, July 1, 2015, updated to June 30, 2016. There were no significant events between the valuation date and the measurement date so the updated procedures only include the addition of service cost and interest cost offset by benefit payments. Beginning of the year measurements are also based on the actuarial valuation as of July 1, 2015. Because the beginning and ending values are based on the same actuarial valuation and there were no significant events, no liability gains or losses due to experience are reported this year.

The net pension liability (i.e., the pension plan's liability determined in accordance with GASB Statement No. 67 less the fiduciary net position) is shown below:

Change in Net Pension Liability

	Increase (Decrease)		
Plan	**Total Pension Liability (a)**	**Pension Plan Fiduciary Net Position (b)**	**Net Pension Liability (a-b)**
Balance at June 30, 2015	$ 35,462,479	$ 31,878,878	$ 3,583,601
Changes for the Year:			
Service cost	1,717,422	-	1,717,422
Interest	2,186,254	-	2,186,254
Changes of benefits	-	-	-
Changes of assumptions	(594,082)	-	(594,082)
Differences between expected and actual experience	1,524,469	-	1,524,469
Contributions - employer	-	667,952	(667,952)
Contributions - employee	-	1,399,254	(1,399,254)
Net investment income	-	(116,967)	116,967
Benefit payments, including refunds of employee contributions	(1,506,614)	(1,506,614)	-
Administrative expenses	-	(188,656)	188,656
Net Changes	3,327,449	254,969	3,072,480
Balance at June 30, 2016	$ 38,789,928	$ 32,133,847	$ 6,656,081

Actuarial Methods and Significant Assumptions

The Plan retains an independent actuarial firm to conduct actuarial valuations of the pension plan to monitor the Plan's funding status and to establish the contribution rate requirements for the pension plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Examples include Plan experience differing from that anticipated by the economic or demographic assumptions, changes in economic or demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the Plan's funded status), and changes in Plan provisions or applicable law. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by

NOTE 6 – NET PENSION LIABILITY AND SIGNIFICANT ASSUMPTIONS (Continued)

the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension liability was determined by an actuarial valuation as of July 1, 2015, using the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB Statement No. 67.

The total pension liability for the pension plan was determined by an actuarial valuation as of July 1, 2015, and accepted actuarial procedures were applied to roll-forward the total pension liability to June 30, 2016. Key methods and assumptions used in the latest actuarial valuations as of July 1, 2015, are presented below:

Valuation Date	July 1, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level-Dollar Projected Payroll
Remaining Amortization Period	20-year Amortization of Unfunded Liability, plus Normal Cost with interest and administrative expense, less expected Employee Contributions
Asset Valuation Method	Smoothed asset value, with differences between actual and expected earnings recognized over a 5 year period, subject to an 80% - 120% coordior around market value
Actuarial Assumptions:	
Discount Rate	5.92% (net of administrative expense)
Projected Salary Increases	3.00%
Salary Growth	3.00%
Mortality	*Actives* RP-2006 combined annuitant/non-annuitant mortality table with generational future improvement from 2006 using scale MP-2016. *Full-Time Actives (no longer accruing benefits)* Mortality rates are based on the most recent CalPERS mortality table developed in the 1997-2011 CalPERS Experience Study, with generational future improvements from 2008 using scale MP-2016.

Changes in Assumptions and Methods Since the Prior Valuation

1) Update to GASB 68 discount rate from 6.00% as of 7/1/2015 to 5.92% as of 7/1/2016 to reflect revised project of assets and municipal bond index as of 7/1/2016.
2) Update to assumed mortality improvement scale from MP-2014 to MP-2016.
3) Allowance for outstanding benefit payment due to current retirees who retired beyond normal retirement date but have yet to receive an enhancement benefit.

NOTE 6 – NET PENSION LIABILITY AND SIGNIFICANT ASSUMPTIONS (Continued)

Asset Allocation Policy and Expected Long-Term Rate of Return by Asset Class

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Arithmetic Long-Term Expected Real Rate of Return
Cash	1.22%	3.20%
U.S. Equities	67.52%	9.70%
Fixed Income	31.26%	3.70%
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 5.92%. The projected cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and the County contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan as of June 30, 2016, calculated using the discount rate of 5.92%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (4.92%) or one percentage point higher (6.92%) than the current rate:

	1% Decrease (4.92%)	Current Discount Rate (5.92%)	1% Increase (6.92%)
Total Pension Liability	$ 45,070,798	$ 38,789,928	$ 33,501,531
Pension Plan Fiduciary Net Position	32,133,847	32,133,847	32,133,847
Net Pension Liability Asset	$ 12,936,951	$ 6,656,081	$ 1,367,684
Fiduciary Net Position as a Percentage of the Total Pension Liability	71.3%	82.8%	95.9%

NOTE 6 – NET PENSION LIABILITY AND SIGNIFICANT ASSUMPTIONS (Continued)

Money-Weighted Rate of Return

For the year ended June 30, 2016, the annual money-weighted rate of return on investments, net of investment expense, was 0.41%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NOTE 7 – SUBSEQUENT EVENTS

The Plan has evaluated subsequent events through March 14, 2019, the date on which the financial statements were available to be issued. There are no pending subsequent events noted.

REQUIRED SUPPLEMENTARY INFORMATION

COUNTY OF RIVERSIDE
PART-TIME AND TEMPORARY EMPLOYEES' 401(a) RETIREMENT PLAN
SCHEDULES OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2016

Measurement Period	**June 30, 2016***	**June 30, 2015***	**June 30, 2014***
Total Pension Liability			
Service cost	$ 1,717,422	$ 1,511,755	$ 1,556,594
Interest (includes interest on service cost)	2,186,254	1,983,322	1,800,053
Differences between expected and actual experience	1,524,469	795,023	1,146,168
Changes of assumptions	(594,082)	2,939,020	-
Benefit payments, including refunds of employee contributions	(1,506,614)	(1,511,284)	(1,761,676)
Net Change in Total Pension Liability	3,327,449	5,717,836	2,741,139
Total Pension Liability - Beginning	35,462,479	29,744,643	27,003,504
Total Pension Liability - Ending (a)	$ 38,789,928	$ 35,462,479	$ 29,744,643
Fiduciary Net Position			
Contributions - employer	$ 667,952	$ 606,694	$ 955,554
Contributions - employee	1,399,254	1,266,962	1,394,450
Net investment income (loss)	(116,967)	131,206	4,437,066
Benefit payments, including refunds of employee contributions	(1,506,614)	(1,511,284)	(1,761,676)
Administrative expenses	(188,656)	(217,041)	(227,581)
Net Change in Fiduciary Net Position	254,969	276,537	4,797,813
Fiduciary Net Position - Beginning	31,878,878	31,602,341	26,804,528
Fiduciary Net Position - Ending (b)	$ 32,133,847	$ 31,878,878	$ 31,602,341
Fiduciary Net Pension Liability (Asset)- Ending (a)-(b)	$ 6,656,081	$ 3,583,601	$ (1,857,698)
Fiduciary Net Position as a Percentage of the Total Pension Liability	82.84%	89.89%	106.25%
Covered Employee Payroll	$ 41,918,375	$ 37,918,375	$ 29,516,733
Fiduciary Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	15.88%	9.45%	-6.29%

* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

COUNTY OF RIVERSIDE
PART-TIME AND TEMPORARY EMPLOYEES' 401(a) RETIREMENT PLAN
SCHEDULES OF CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016

Measurement Period	2016*	2015*	2014*
Actuarially Determined Contributions	$ 122,127	$ 252,273	$ 334,728
Contributions in Relation to the Actuarially Determined Contributions	667,952	606,694	955,554
Contribution Deficiency / (Excess)	$ (545,825)	$ (354,421)	$ (620,826)
Covered Employee Payroll	$ 41,747,000	$ 37,918,375	$ 29,516,733
Contributions as a Percentage of Covered Employee Payroll	1.60%	1.60%	3.24%

* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

COUNTY OF RIVERSIDE
PART-TIME AND TEMPORARY EMPLOYEES' 401(a) RETIREMENT PLAN
SCHEDULES OF INVESTMENT RETURNS
FOR THE YEAR ENDED JUNE 30, 2016

	June 30, 2016*	June 30, 2015*	June 30, 2014*
Annual Money-Weighted Rate of Return, Net of Investment Expense	0.41%	16.50%	16.50%

* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. It is calculated by finding the rate of return that will set the present values of all cash flows and terminal values equal to the value of the initial investment. The money-weighted rate of return is equivalent to the internal rate of return (IRR).

COUNTY OF RIVERSIDE
PART-TIME AND TEMPORARY EMPLOYEES' 401(a) RETIREMENT PLAN
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 – KEY METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATES

The following actuarial methods and assumptions were used to determine contribution rates in the Schedule of Contributions:

Valuation Date	July 1, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level-Dollar Projected Payroll
Remaining Amortization Period	20-year Amortization of Unfunded Liability, plus Normal Cost with interest and administrative expense, less expected Employee Contributions
Asset Valuation Method	Smoothed asset value, with differences between actual and expected earnings recognized over a 5 year period, subject to an 80% - 120% coordior around market value
Actuarial Assumptions:	
Discount Rate	5.92% (net of administrative expense)
Projected Salary Increases	3.00%
Salary Growth	3.00%
Mortality	*Actives* RP-2006 combined annuitant/non-annuitant mortality table with *Full-Time Actives (no longer accruing benefits)* Mortality rates are based on the most recent CalPERS mortality table developed in the 1997-2011 CalPERS Experience Study, with generational future improvements from 2008 using scale MP-2016.

A complete description of the methods and assumptions used to determine contribution rates for the year ending June 30, 2016, can be found in the July 1, 2015 actuarial valuation report.

NOTE 2 – CHANGES OF ASSUMPTIONS

Changes in Assumptions and Methods Since the Prior Valuation

1) Update to GASB 68 discount rate from 6.00% as of 7/1/2015 to 5.92% as of 7/1/2016 to reflect revised project of assets and municipal bond index as of 7/1/2016.
2) Update to assumed mortality improvement scale from MP-2014 to MP-2016.
3) Allowance for outstanding benefit payment due to current retirees who retired beyond normal retirement date but have yet to receive an enhancement benefit.

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BROWN ARMSTRONG

Certified Public Accountants

To the Honorable Board of Supervisors
County of Riverside, California

We have audited the financial statements of the County of Riverside (the County) Part-Time and Temporary Employees' 401(a) Retirement Plan (the Plan) for the year ended June 30, 2016, and have issued our report thereon dated March 14, 2019. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, 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 August 23, 2018. 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 Plan are described in Note 2 to the financial statements. The Plan adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*; GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*; and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* during the fiscal year 2016. We noted no transactions entered into by the Plan 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 estimates affecting the financial statements were:

> Management's estimates of the fair value of investments and the money-weighted rate of return are based on quoted prices as of the balance sheet date for those securities. We evaluated the key factors and assumptions used to develop the estimates of the fair value of investments and money-weighted rate of return in determining that they are reasonable in relation to the financial statements taken as a whole.
>
> Management's estimates of the contribution amounts and net pension liability are based on an actuarially-presumed interest rate and assumptions recommended by an independent actuary which were adopted by the County's Board of Supervisors. They involve estimates of the values of reported amounts and probabilities about the occurrence of future events, as detailed in Note 5, Contributions Required and Contributions Made, and Note 6, Net Pension Liability and Significant Assumptions.

We evaluated the key factors and assumptions used to develop the estimates of the contribution amounts and net pension liability in determining that they are reasonable in relation to the financial statements taken as a whole.

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

> The disclosures of cash and investments, in Notes 3 and 4 to the financial statements, were derived by various methods as detailed in the notes.
>
> The disclosures related to the funding policies, funding status, progress, and actuarial methods and assumptions in Note 6, Net Pension Liability and Significant Assumptions, were derived from actuarial valuations, which involve estimates of the value of reported amounts and probabilities about the occurrence of the future events far into the future.

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 misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We detected no such misstatements during our audit.

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 March 14, 2019.

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 Plan'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.

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 the Plan'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 the Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Contributions, and Schedule of Investment Returns, which are required supplementary information (RSI) that supplement 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 basis financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
March 14, 2019

COUNTY OF RIVERSIDE
PART-TIME AND TEMPORARY EMPLOYEES'
401(a) RETIREMENT PLAN

MANAGEMENT LETTER

JUNE 30, 2016

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BROWN ARMSTRONG
Certified Public Accountants

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 Honorable Board of Supervisors
County of Riverside, 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 County of Riverside (the County) Part-Time and Temporary Employees' 401(a) Retirement Plan (the Plan), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements and have issued our report thereon dated March 14, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan'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 Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan'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 County'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, that we consider to be significant deficiencies. See **Findings 2016-001** through **2016-002**.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan'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*.

The Plan's Response to Findings

The Plan's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Plan's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Plan'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 Plan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This communication is intended solely for the information and use of management, the Board of Supervisors, and others within the Plan, and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
March 14, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016

Finding 2016-001 Active Member Finding

Condition:

For 1 of the 60 active members tested, the required identification documents was not on file. The member was missing proof of date of birth, government-issued ID, basic demographic data, etc. These documents are used to verify the identity of the member being enrolled in the Plan, and therefore, we were unable to verify if the information for the date of birth and demographic data was correct in the Plan's pension system, Relius.

Criteria:

Retirement Plan Bylaws state that the date of birth needs to be verified as it affects the contributions and eventually the monthly benefit and date of when benefits commence.

Cause of Condition:

Lack of controls over reviewing and ensuring required documentation is submitted by the member and contained in the files.

Effect of Condition:

The potential effect is that, if we are unable to verify that the birth date and other demographic information is correct, when the member retires, the incorrect date could be used in determining their eligibility for a monthly benefit, and it could also affect the eligible earnings used in the calculation of their monthly benefit.

Recommendation:

We recommend that management implement a review system or checklist to ensure all required documents are in the member's file.

Management Response:

As a result of the initial findings from the audit ending June 30, 2015, management modified internal processes by creating a 401(a) Part-Time Temporary Retirement Plan - Lump Sum Distribution Checklist form and requires that an official identification card/document (e.g. driver's license, passport, birth certificate, etc.) issued by a governmental agency (e.g. DMV, Homeland Security, County/City Clerk Recorder Office) is on file to validate the date of birth and age of each member, prior to authorizing a distribution from the Plan.

Additionally, the County of Riverside (the County) started processing distributions on a bi-weekly basis versus an annual basis. Changing the processing period reduced the number of records to be reviewed at a time, which provides the retirement representative more time to review each request for improved data accuracy. After all distributions are finalized, the records are reviewed a second time for accuracy by a different retirement representative prior to having payments issued.

<u>Finding 2016-002 Terminated Member Finding</u>

Condition:

For 1 of the 40 deferred and terminated members tested in the Plan, we noted the member was listed as terminated per our population (from US Bank) but did not have a termination date entered in Relius. Upon further inquiry, it was found that someone had wrongly entered the SSN for the member resulting in the termination date not showing up. This was corrected by management after we mentioned it to them.

Criteria:

The termination date should be the same in the custodian reports as well as Relius.

Cause of Condition:

The termination date was not in Relius because of a lack of management oversight over employees who enter sensitive information.

Effect of Condition:

This could potentially create an issue over system records of termination or payment. If there is no termination date, a reviewer cannot verify that the member is properly paid out and/or terminated.

Recommendation:

We recommend that management implement a review system to ensure data is entered correctly.

Management Response:

All terminations with an effective date prior to June 2001 shall have the termination effective date compared in Alpha and Relius systems to ensure both systems reflect the same termination effective date for the participant.

All terminations with an effective date after June 2001 shall have the termination effective date compared in PeopleSoft and Relius to ensure both systems reflect the same termination effective date for the participant.

If a discrepancy in the termination effective date is discovered, the County retirement representative is required to research the discrepancy and determine the correct termination effective date by reviewing the member's personnel documents on file with the County Human Resources Department. Once the County retirement representative has validated the termination effective date, the retirement representative must immediately have Alpha or PeopleSoft and Relius updated to reflect the same and termination effective for the participant.

Once the participant's record is updated, the changes will be reviewed and validated by another team member as a second review prior to any payment or distribution being made.

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Finding 2015-001 Active Member Finding

Condition:

- For 1 of the 40 active members tested, we noted that the birth date entered in Relius, the Plan's pension system, was incorrect and did not match the date of birth listed on the driver's license and forms signed by the member.
- For 1 of the 40 active members tested, the required identification documents was not on file. The member was missing proof of date of birth, government-issued ID, basic demographic data, etc. These documents are used to verify the identity of the member being enrolled in the Plan, and therefore, we were unable to verify if the information for the date of birth and demographic data was correct in Relius.
- For 2 of the 40 active members tested, the required Temporary Plan Eligibility Self-Certification Form was not on file. This document is required and signed by the member stating they are eligible to enter the Plan, and starts the enrollment process into the Plan. For one of these two members, there was an Employee Transaction Form (ETF) on file, which shows the employee has been reviewed and approved for eligibility as they verify employment with the department. Although they were eligible, the required self-certification form was not on file. For the second member, there was no ETF form and, therefore, we were unable to verify that this member was eligible to participate in the Plan.

Criteria:

Retirement Plan Bylaws state that the date of birth needs to be verified as it affects the contributions and eventually the monthly benefit and date of when benefits commence. Additionally, members must have proof of identification in order to be eligible for entry into the Plan.

Cause of Condition:

- Data was transposed when entered into Relius, and there was a lack of internal controls to review whether the data was entered correctly.
- Lack of controls over reviewing and ensuring required documentation is submitted by the member and contained in the files.
- Lack of controls over reviewing and ensuring required documentation is submitted by the member and contained in the files and that eligibility has been determined.

Effect of Condition:

- The potential effect is that, if the wrong date is entered into Relius, when the member retires, the incorrect date could be used in determining their eligibility for a monthly benefit, and it could also affect the eligible earnings used in the calculation of their monthly benefit..
- The potential effect is that, if we are unable to verify that the birth date and other demographic information is correct, when the member retires, the incorrect date could be used in determining their eligibility for a monthly benefit, and it could also affect the eligible earnings used in the calculation of their monthly benefit. There is also a possibility of the benefit being paid to the wrong address.
- The potential effect is that they could enter a member into the Plan who is not eligible.

Recommendation:

We recommend that management implement a review system to ensure data is entered correctly. We also recommend that management implement a review system or checklist to ensure all required documents are in the member's file.

Management Response:

Management will correct the error and perform a more thorough review to ensure errors are caught. Additionally, management noted that the errors did not have an effect on their contributions.

Current Year Status:

Partially implemented. See current year finding 2016-001.

Finding 2015-002 Retirees Member Finding

Condition:

- For 2 of the 40 retiree samples, no distribution request form was in the member's file and, therefore, we were unable to verify the member's tax election with what was entered into Relius, nor were we able to verify the member's date of birth with what was entered into Relius.
- For 6 of the 40 retiree samples, all 6 of whom are over the age of 70.5, we noted there were no actuary letters regarding increased benefits in their files, and these members were not receiving an increased benefit as required by the Retirement Plan Bylaws.
- For 2 of the 40 retirees tested, we noted the date of birth in Relius was incorrect.

Criteria:

- Per the Retirement Plan Bylaws, a distribution request form is to be completed and kept in a member's file if they are receiving a monthly benefit. The date of birth needs to be verified as it affects the monthly benefit and date of when benefits commence.
- Per the Retirement Bylaws, a member's accrued benefit shall be actuarially increased to take into account the period after age 70.5 in which the member does not receive any benefits under the Plan. The member shall be entitled to a minimum of the actuarial equivalent of the member's accrued benefit as determined as of the April 1 following the calendar year in which the member attains age 70.5 and ending on the date on which benefits commence after retirement in an amount sufficient to satisfy code 401(a)(9).
- The date of birth needs to be verified as it affects the monthly benefit and date of when benefits commence.

Cause of Condition:

- There was a lack of review to ensure all required documentation is in the member's file and that it matches the information in Relius.
- There was a lack of controls and review regarding members approaching age 70.5 that would be eligible for an increased benefit.
- There was a lack of review to ensure the information entered into Relius matches the documents in the member's file.

Effect of Condition:

- The potential effect is that taxes could either be withheld or not withheld in accordance with the member's election. If the date of birth is not verified to documents provided by the member, and therefore not entered into Relius correctly, the monthly benefit could commence at the incorrect time due to the retirement age being incorrect as it is based off the date of birth. In addition, if the birth date is not correct and the member receives their monthly benefit either earlier or later than they should, it could affect the monthly benefit amount as the amount is based off total eligible earnings.
- Members over the age of 70.5 are not receiving an increased benefit, and therefore, these members are being underpaid.
- If the date of birth is entered into Relius incorrectly, the monthly benefit could commence at the incorrect time due to the retirement age being incorrect as it is based off the date of birth. In addition, if the birth date is not correct and the member receives their monthly benefit either earlier or later than they should, it could affect the monthly benefit amount as the amount is based off total eligible earnings.

Recommendation:

- We recommend that the Plan implement a checklist and review process to ensure all required documents, such as the distribution request forms, are maintained in the member's file and that distributions are not made until required forms are obtained.
- We recommend that the Plan run reports monthly to check for members who are soon approaching age 70.5 that would qualify for an enhanced benefit. We also recommend management implement a review process to ensure that all members who are age 70.5 and over receive an increase in their benefit payment.
- We recommend that management implement a review process to ensure that the data listed in the member's file, such as the date of birth, is entered into Relius correctly.

Management Response:

Management agrees with the findings and will implement the recommended review process.

Current Year Status:

Implemented. Along with completing the 401(a) Checklist form and verifying valid proof of members' date of birth and age documents are on file, the County implemented as standard process to automatically review each Plan member between the ages of 65 – 69 to determine their eligibility for an enhanced benefit.

Additionally, all members at least age 70 and up are automatically reviewed by Aon for an actuarial calculation for an enhanced benefit.

Finding 2015-003 Terminated Member Finding

Condition:

For 1 of the 25 deferred and terminated members tested in the Plan, we noted the member was listed as terminated per our population (from US Bank) but did not have a termination date entered in Relius. Upon further inquiry, it was found that this member terminated prior to a system change in 2001. Because the member left prior to the conversion of pension systems (from Alpha to Relius), only partial details were imported into the new system and the termination date was not carried over.

Criteria:

The termination date should be the same in the custodian reports as well as the pension system.

Cause of Condition:

The termination date was not in Relius because of a conversion issue from the old pension system.

Effect of Condition:

This could potentially create an issue over system records of termination or payment. If there is no termination date, a reviewer cannot verify that the member is properly paid out and/or terminated.

Recommendation:

We recommend the Plan perform checks on data from Alpha, the old system, to data in Relius, the new system.

Management Response:

Management agrees with the finding and will reconcile the information in the old system to the new system.

Current Year Status:

See current year finding 2016-002. All terminations effective prior to June 2001 are required to be confirmed in the Alpha system to validate the termination effective date is identical to the termination effective date reflected in the Relius system.

All terminations with an effective date after June 2001 will be compared with the termination effective date in PeopleSoft to the termination effective date reflected in Relius.

Finding 2015-004 Decedent Finding

Condition:

We noted during our deceased member testing that 2 of the 6 deceased members were not marked as "deceased" and they were not zeroed out in Relius. 1 of these 2 members was an active member decedent, and we noted the lump sum of contributions on account was not paid out to the beneficiary stated on the member's election form, but rather was paid out erroneously to the estate. For the retiree member decedent, we noted they were marked deceased in the US Bank system and no payment was made after the member's date of death.

Criteria:

Retirement Plan Bylaws state that a deceased member's beneficiary should receive their accurate payment. Decedents should be marked as "deceased" in Relius.

Cause of Condition:

There was a lack of review over input into Relius and a lack of review over benefit payments.

Effect of Condition:

If a member is not marked deceased in the Plan's system and if benefits are not zeroed out, there is potential that a member could be paid after their date of death and someone else could be cashing the check. Also, if the beneficiary information on the election form is not input into the Relius system correctly or if it is not verified, the incorrect person could receive the lump sum of the contributions on account.

Recommendation:

We recommend that the Plan be more attentive in the review process over input into the pension system, Relius, in comparison to the forms in the member's file and the status of the member. We also recommend management review the status in Relius and US Bank in order for them to be uniform, make sure benefits are being paid to the correct people, and that members are properly marked as "deceased."

Management Response:

The two deceased members mentioned above will be marked as "deceased" in Relius. In addition, management agrees that the check should have been paid to the beneficiary elected on the form and not the estate.

Current Year Status:

Implemented. The 401(a) Checklist requires that each member record is thoroughly reviewed to ensure:

- The termination effective date and member status (e.g. active, term, deceased, etc.) are the same in each applicable database (e.g. Alpha, PeopleSoft, Relius and US Bank)
- Verified member date of birth and age prior to payment distribution
- Verify deceased member's account is updated and paid out accordingly to the appropriate beneficiary, if applicable, and account balance is zeroed out in Relius and US Bank
- Use 401(a) Checklist form to ensure all data and required documents for transaction are on file.