



Notice of Public Meeting

Audit Committee

of the San Mateo County Employees' Retirement Association will meet at 100 Marine Parkway, Suite 125 (Conference Room), Redwood City

April 22, 2025 at 9:00 a.m.

PUBLIC SESSION – The Committee will meet in Public Session at 9:00 a.m.

1.0 Call to Order and Roll Call

2.0 Oral Communications

- 2.1 Oral Communications from the Committee
- 2.2 Oral Communications from the Public

3.0 Approval of Minutes

- 3.1 Approval of Audit Committee Minutes from February 25, 2025

4.0 Audit Services

- 4.1 Approval of Audit Engagement for 2025 Annual Financial Audit
- 4.2 Approval of Budget for FY 25-26
- 4.3 Review of Audit Committee Calendar

5.0 Adjournment


Kimathi Marangu, Audit Committee Chair

Posted: April 17, 2025

Be advised that the committees of the Board of Retirement are forums in which consensus may emerge. If you have an interest in a matter before a committee, you are advised to attend the committee meeting. Committee meeting times are noted on the board agenda.

IN COMPLIANCE WITH THE CALIFORNIA GOVERNMENT CODE AND THE AMERICANS WITH DISABILITIES ACT:

SamCERA's facilities and board and committee meetings are accessible to individuals with disabilities. Contact Gladys Smith at (650) 599-1234 at least three business days prior to the meeting, if (1) you need special assistance or a disability-related modification or accommodation, including auxiliary aids or services, in order to participate in this meeting; or (2) you have a disability and wish to receive the agenda, meeting notice, agenda packet or other writings that may be distributed at the meeting in an alternative format. Notification in advance of the meeting will enable SamCERA to make reasonable arrangements to ensure full accessibility to this meeting and the materials related to it.

THE COMMITTEE MEETS IN THE CONFERENCE ROOM IN 100 MARINE PARKWAY, SUITE 125,
WHICH IS LOCATED ON THE SE CORNER OF TWIN DOLPHIN & MARINE PARKWAY IN REDWOOD CITY
Detailed directions are available on the "Contact Us" page of the website www.samcera.org
Free Parking is available in all lots in the vicinity of the building.

[Page 1 of 1 – Posted 4/17/2025]

**SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
FEBRUARY 25, 2025 – AUDIT COMMITTEE MEETING MINUTES**

2502.1 **Call to Order:** Kimathi Marangu, Chair, called the meeting of the Audit Committee to order at 9:01 a.m.

Roll Call:

Present: April DeCarsky, Kimathi Marangu (Chair), and Katherine O'Malley.

Staff: Tat-Ling Chow, Scott Hood, Jenny Lukan, Paul Okada, and Gladys Smith.

Consultants: Nick Collier and Craig Glyde (Milliman) via Teams.

2502.2.1 **Oral Communications from the Board:** None.

2502.2.2 **Oral Communications from the Public:** None.

2502.3.1 **Approval of Audit Committee Minutes from November 5, 2024:** Mr. Marangu asked if there were any changes or corrections, or objections, to the minutes from the Audit Committee meeting held on November 5, 2024. There were no changes, corrections, or objections presented.

Action: Ms. O'Malley moved to approve the minutes from the November 5, 2024 Audit Committee meeting. The motion was seconded by Ms. DeCarsky and carried with a vote of 3-0-0, with trustees DeCarsky, Marangu, and O'Malley all in favor; none opposed; none abstained.

2502.4.1 **Presentation of Proposed Actuarial Assumptions for 2025 Annual Valuation:** Mr. Hood introduced Nick Collier and Craig Glyde, Milliman, by reporting that it is a role of the Audit Committee to look at assumptions. Mr. Collier and Mr. Glyde presented on the proposed actuarial assumptions for the 2025 annual valuation and answered questions from the committee. Mr. Collier and Mr. Glyde logged off the Teams meeting after their presentation. This item was informational and for discussion only, no action was taken.

2502.4.2 **Discussion of Proposed Draft Amendment to Regulations Regarding Committee Assignments:** Mr. Hood reviewed staff's proposed changes to the Board regulations that provide for the incoming Board Chair to consider committee membership such that it provides for continuity on the committees. Mr. Marangu called for a motion to approve the proposed changes to the Board regulations and to place this item on the regular Board Meeting consent agenda in April.

Action: Ms. DeCarsky moved to approve the proposed changes to the Board regulations and for the proposed Board regulation changes to be submitted to the full Board for approval on the regular Board Meeting consent agenda in April. The motion was seconded by Ms. O'Malley with a vote of 3-0-0, with trustees DeCarsky, Marangu, and O'Malley all in favor; none opposed; none abstained.

2502.4.3 **Review of Audit Committee Calendar:** Mr. Hood reviewed the Audit Committee calendar with the Audit Committee. Mr. Hood reported that at the next Audit Committee Meeting in April, Ashley Green from Brown Armstrong, will call in regarding the engagement letter. This item is moving up on the schedule from the June Audit Committee Meeting. Mr. Hood reported that at the April Audit Committee Meeting, discussions will also include the recommended budget and audit. Mr. Hood reported that as of now, the June Audit Committee Meeting is open, with no items scheduled for discussion. This item was informational and for discussion only, no action was taken.

Adjournment: With no further business, Mr. Marangu adjourned the meeting at 9:47 a.m.

Kimathi Marangu
Audit Committee Chair

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

April 22, 2025

Agenda Item 4.1

TO: Audit Committee

FROM: Scott Hood, Chief Executive Officer 

SUBJECT: Presentation and Approval of Audit Engagement for 2025

Recommendation

Staff recommends approving the Audit Engagement Letter.

Background

SamCERA undergoes an annual financial audit performed by its auditor, Brown Armstrong. The audit covers the fiscal year ending June 30th 2025. In order to complete the audit in a timely manner, staff and the auditor, as well as the actuary need to agree to a set of deadlines and milestones for all parties to accomplish specified required tasks so the results can be ready for the Annual Comprehensive Financial Report (ACFR).

Discussion

Ashley Greene from Brown Armstrong will go over the audit engagement scope and highlights and some of the key dates for this audit engagement.

Attachment

Draft Audit Engagement Letter

April 9, 2025

Mr. Scott Hood, Chief Executive Officer, and
Chair of Audit Committee
San Mateo County Employees' Retirement Association
100 Marine Parkway, Suite 125
Redwood City, California 94065

Dear Mr. Hood and Chair of Audit Committee:

We are pleased to confirm our understanding of the services we are to provide San Mateo County Employees' Retirement Association (SamCERA) for the year ended June 30, 2025.

Audit Scope and Objectives

We will audit the financial statements, including the related notes to the financial statements, which collectively comprise the basic financial statements of SamCERA as of and for the year ended June 30, 2025. Accounting principles generally accepted in the United States of America (GAAP) provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement SamCERA's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) 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 SamCERA's RSI in accordance with auditing standards generally accepted in the United States of America (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 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 and Related Ratios of Participating Employers
- 3) Schedule of Employer Contributions
- 4) Schedule of Investment Returns
- 5) Notes to the Required Supplementary Information

We have also been engaged to report on other supplementary information other than RSI that accompanies SamCERA's financial statements for the Annual Comprehensive Financial Report (ACFR). 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

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financial statements themselves, and other additional procedures in accordance with GAAS, and we will provide an opinion on it in relation to the financial statements as a whole, in a report combined with our auditor's report on the financial statements:

- 1) Schedule of Administrative Expenses
- 2) Schedule of Information Technology Expenses
- 3) Schedule of Investment Expenses
- 4) Schedule of Payments to Consultants (Other Than Investment Advisors)
- 5) Notes to Supplementary Information

We have also been engaged to report on the following other information accompanying the financial statements as required by GASB Statement No. 68 which will be subjected to the auditing procedures applied in our audit of the financial statements. Our auditor's report will provide an opinion on the other information:

- 1) Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan (GASB Statement No. 68)
- 2) Schedule of Cost Sharing Employer Allocations (GASB Statement No. 68)
- 3) Notes to Other Information

In connection with our audit of the basic financial statements, we will read the following accompanying information and consider whether a material inconsistency exists between the accompanying information and the basic financial statements, or the accompanying information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the accompanying information exists, we are required to describe it in our report:

- 1) Introductory Section
- 2) Investment Section
- 3) Actuarial Section
- 4) Statistical Section
- 5) Compliance Section

The objectives of our audit are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; issue an auditor's report that includes our opinion about whether your financial statements are fairly presented, in all material respects, in conformity with GAAP; and 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. Reasonable assurance is the high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. Misstatements, including omissions, can arise from fraud or error and are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment of a reasonable user made based on the financial statements. We will issue a written report upon completion of our audit of SamCERA's financial statements.

The objectives also include reporting on internal control over financial reporting and compliance with provisions of laws, regulations, contracts, and agreements; noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.

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Auditor's Responsibilities for the Audit of the Financial Statements

Government Auditing Standards require that we communicate, during the planning stage of an audit, certain information to officials of the audited entity and certain other parties. That information follows.

We will conduct our audit in accordance with 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 your accounting records of SamCERA and other procedures we consider necessary to enable us to express such opinions. As part of an audit in accordance with GAAS and *Government Auditing Standards*, we exercise professional judgment and maintain professional skepticism throughout the audit.

We will evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management. We will also evaluate the overall presentation of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. We will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, and whether the financial statements are free from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations, if any, which are attributable to SamCERA or to acts by management or employees acting on behalf of SamCERA. Because the determination of waste and abuse is subjective, *Government Auditing Standards* do not expect auditors to perform specific procedures to detect waste or abuse in financial audits nor do they expect auditors to provide reasonable assurance of detecting waste or 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 an unavoidable risk that some material misstatements may not be detected by us, even though the audit is properly planned and performed in accordance with GAAS 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, fraudulent financial reporting, or misappropriation of assets that comes 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. 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.

We will also conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SamCERA's ability to continue as a going concern for a reasonable period of time.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts and direct confirmation of investments and certain assets and liabilities by correspondence with financial institutions, actuaries, and other third parties. We will also request written representations from your attorneys as part of the engagement.

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According to GAAS, significant risks include management override of controls, and GAAS presumes that revenue recognition is a significant risk. Accordingly, we have considered these as significant risks.

We may, from time to time and depending on the circumstances, and in accordance with our agreement dated May 29, 2024 (the "Agreement"), use third-party service providers in serving your entity. We may share confidential information about your entity 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 members' 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.

Our audit of financial statements does not relieve you of your responsibilities related to the preparation and fair presentation of the financial statements.

Audit Procedures—Internal Control

We will obtain an understanding of SamCERA and its environment, including the system of internal control, sufficient to identify and assess the risks of material misstatement of the financial statements, whether due to error or fraud, and to design and perform audit procedures responsive to those risks and obtain evidence that is sufficient and appropriate to provide a basis for our opinions. 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*. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal control. An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. Accordingly, we will express no such opinion. However, during the audit, we will communicate to management and those charged with governance of internal control related matters that are required to be communicated under American Institute of Certified Public Accountants (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 SamCERA's compliance with the provisions of applicable laws,

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regulations, contracts, and agreements. 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*.

In addition, we will perform certain procedures directed at considering SamCERA's compliance with applicable Internal Revenue Service (IRS) requirements for tax exempt status. However, you should understand that our audit is not specifically designed for and should not be relied upon to disclose matters affecting plan qualifications or compliance with IRS requirements. If during the audit we become aware of any instances of any such matters or ways in which management practices can be improved, we will communicate them to you.

Responsibilities of Management for the Financial Statements

Our audit will be conducted on the basis that you acknowledge and understand your responsibility for designing, implementing, establishing, and maintaining effective internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, and for 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 agreements. You are also responsible for the selection and application of accounting principles; for establishing an accounting and financial reporting process for determining appropriate value measurements; for the acceptance of the actuarial methods and assumptions used by the actuary; for the preparation and fair presentation of the financial statements and all accompanying information in conformity with GAAP; and for compliance with applicable laws and regulations and the provisions of contracts and agreements.

Management is responsible for making drafts of financial statements, all financial records, and related information available to us; for the accuracy and completeness of that information (including information from outside of the general and subsidiary ledgers); and for the evaluation of whether there are any conditions or events, considered in the aggregate, that raise substantial doubt about SamCERA's ability to continue as a going concern for the 12 months after the financial statements date or shortly thereafter (for example, within an additional three months if currently known). 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, such as records, documentation, identification of all related-party relationships and transactions, and other matters; (2) additional information that we may request for the purpose of the audit; and (3) unrestricted access to persons within SamCERA from whom we determine it necessary to obtain audit evidence. You are also responsible for maintaining a current plan instrument, including all plan amendments; for administering SamCERA and determining that SamCERA's transactions that are presented and disclosed in the financial statements are in conformity with SamCERA's provisions, including maintaining sufficient records with respect to each of the participants to determine the benefits due or which may become due to such participants. 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 agreements; and other responsibilities required by GAAS and *Government Auditing Standards*.

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Your responsibilities include adjusting the financial statements to correct material misstatements and 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 of each opinion unit 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 SamCERA 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 SamCERA received in communications from employees, former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that SamCERA complies with applicable laws, regulations, contracts, and agreements; and for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, or contracts or agreements that we report.

You are responsible for the preparation of the other supplementary information, which we have been engaged to report on, in conformity with GAAP. 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 other supplementary information that includes our report thereon or make the audited financial statements readily available to users of the supplementary information no later than the date the other supplementary information is issued with 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 other 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 other supplementary information.

You are required to disclose in the financial statements the date through which subsequent events have been evaluated and whether that date is the date the financial statements will be issued or will be available to be issued. You agree that you will not date the subsequent event note earlier than the date of the management representation letter.

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 Scope and 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.

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With regard to publishing the financial statements on your website, you understand that websites are a means of distributing information and, therefore, we are not required to read the information contained in those sites or to consider the consistency of other information on the website with the original document.

You agree to assume all management responsibilities relating to the financial statements and related notes and any other nonaudit services we provide. 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.

In connection with this engagement, we may communicate with you or others via email transmission. As emails can be intercepted and read, disclosed, or otherwise used or communicated by an unintended third party, or may not be delivered to each of the parties to whom they are directed and only to such parties, we cannot guarantee or warrant that emails from us will be properly delivered and read only by the addressee. Therefore, we specifically disclaim and waive any liability or responsibility whatsoever for interception or unintentional disclosure of emails transmitted by us in connection with the performance of this engagement. In that regard, except as otherwise provided in the Agreement, you agree that we shall have no liability for any loss or damage to any person or entity resulting from the unauthorized use of email transmissions, including any consequential, incidental, direct, indirect, or special damages, such as loss of revenues or anticipated profits, or unauthorized disclosure or communication of confidential or proprietary information.

Engagement Administration, Fees, and Other

We will schedule the engagement based in part on deadlines, working conditions, and the availability of your key personnel. We will plan the engagement based on the assumption that your personnel will cooperate and provide assistance by performing tasks such as preparing requested schedules, retrieving supporting documents, preparing confirmations, and will locate any documents selected by us for testing. If, for whatever reason, your personnel are unavailable to provide the necessary assistance in a timely manner, it may substantially increase the work we have to do to complete the engagement within the established deadlines, resulting in an increase in fees over our original fee estimate.

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

The audit documentation for this engagement is the property of Brown Armstrong Accountancy Corporation 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 the United States 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 Brown Armstrong Accountancy Corporation 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 five years after the report release date or for any additional period requested by the United States Government Accountability Office.

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Ashley Green is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them. To ensure that Brown Armstrong Accountancy Corporation's independence is not impaired under the AICPA *Code of Professional Conduct*, you agree to inform the engagement partner before entering into any substantive employment discussions with any of our personnel. We expect to begin our audit on approximately July 14, 2025, and to issue our reports no later than October 23, 2025.

In accordance with our Agreement, our gross fee, including expenses, will not exceed \$66,744. Our standard hourly 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 90 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 additional costs.

All disputes under this agreement shall be submitted to mediation. Each party shall designate an executive officer empowered to attempt to resolve the dispute. Should the designated representatives be unable to agree on a resolution, a competent and impartial third party acceptable to both parties shall be appointed to mediate. Each disputing party shall pay an equal percentage of the mediator's fees and expenses. No suit or arbitration proceedings shall be commenced under this agreement until at least 60 days after the mediator's first meeting with the involved parties. In the event that the dispute is required to be litigated, the court shall be authorized to assess litigation costs against any party found not to have participated in the mediation process in good faith.

You may request that we perform additional services not addressed in this engagement letter. If this occurs, we will communicate with you regarding the scope of the additional services and the estimated fees. We also may issue a separate engagement letter covering the additional services. In the absence of any other written communication from us documenting such additional services, our services will continue to be governed by the terms of this engagement letter.

Reporting

We will issue a written report upon completion of our audit of SamCERA's financial statements. Our report will be addressed to the Board of Retirement and Audit Committee of SamCERA. Circumstances may arise in which our report may differ from its expected form and content based on the results of our audit. Depending on the nature of these circumstances, it may be necessary for us to modify our opinions, add a separate section, or add an emphasis-of-matter or other-matter paragraph to our auditor's report, or if necessary, withdraw from this engagement. If our opinions 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 opinions, we may decline to express opinions or issue reports, or we may withdraw from this engagement.

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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 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 state (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 SamCERA'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 SamCERA's internal control and compliance. The report will also state that the report is not suitable for any other purpose. If during our audit we become aware that SamCERA 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 GAAS and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

Our relationship with you is limited to that described in this letter. As such, you understand and agree that we are acting solely as independent accountants. We are not acting in any ways as a fiduciary or assuming any fiduciary responsibilities for you. We are not responsible for the preparation of any report to any governmental agency, or any other form, return, or report or for providing advice or any other service not specifically recited in this letter.

Our audit engagement ends on delivery of our audit report. Any follow-up services that might be required will be a separate, new engagement. The terms and conditions of that new engagement will be governed by a new, specific engagement letter for that service.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our peer review report dated June 30, 2022, accompanies this letter.

We appreciate the opportunity to be of service to SamCERA 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 and return it to us.

Sincerely,

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

By: Ashley Green

ALG:hfr

Enclosure

Pfx Engagement\74015\06/30/25 Audit\PSR-02-2\Engagement Letter Draft

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RESPONSE:

This letter correctly sets forth the understanding of San Mateo County Employees' Retirement Association.

Management signature:

Title: _____

Date: _____

Governance signature:

Title: _____

Date: _____

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

April 22, 2025

Agenda Item 4.2

TO: Board of Retirement

FROM: Scott Hood, Chief Executive Officer



SUBJECT: SamCERA's Proposed Budget for Fiscal Year 2024-25

Recommendation

Approve SamCERA's proposed budget for fiscal year (FY) 2025-26 totaling \$57.9 million, which is 19% higher than the adopted budget for FY 2024-25.

Discussion

Staff will present the attached budget document highlighting the changes for the coming fiscal year.

Attachment

Draft Board Memo on the FY25-26 Budget

SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Board of Retirement

XXX XX, 2025

Agenda Item 7.1

TO: Board of Retirement

FROM: Tat-Ling Chow, Finance Officer
Diane Webster, Information Technology Officer
Lilibeth Dames, Investment Analyst
Doris Ng, Investment Analyst

SUBJECT: SamCERA's Proposed Budget for Fiscal Year 2025-26

RECOMMENDATION

Approve SamCERA's proposed budget for fiscal year (FY) 2025-26 totaling \$57.9 million, which is 19% higher than the adopted budget for FY 2024-25.

	FY 2025-26 Proposed	FY 2024-25 Adopted	Increase	% of Change
Professional Services	\$ 46,952,434	\$ 38,579,193	\$ 8,373,241	22%
Administrative	9,207,135	8,712,755	494,380	6%
Information Technology	1,746,828	1,365,200	381,628	28%
Total Budget - SamCERA	<u>\$ 57,906,397</u>	<u>\$ 48,657,148</u>	<u>\$ 9,249,249</u>	19%

BACKGROUND

SamCERA's budget consists of three units: professional services, administrative, and information technology.

Professional Services Budget – covers professional fees that are authorized by Government Code §31596.1. This code authorizes the Board of Retirement (the Board) to expend funds from investment earnings of the pension trust for specific professional services, which include actuarial consulting, custodial, investment management, investment consulting, and external legal services.

SamCERA employs professional investment managers to manage its portfolio. Some management fees are performance driven, dependent primarily upon the market value of the assets under management and negotiated fee schedules. As the market values of invested assets increase, so do management fees. Other management fees are based on contractual agreements. Fees for the actuarial consulting, investment consulting, and global custodian services are either on per-service or per-retainer basis.

The Chief Investment Officer and the investment consultant periodically report the portfolio's performance to the Board. Investment staff actively monitor professional service fees against respective contractual agreements.

The **professional services budget** for FY 2025-26 is projected to be \$47.0 million, 22% above the adopted budget for FY 2024-25.

	FY 2025-26 Proposed	FY 2024-25 Adopted	Increase	% of Change
Investment Management Fees	\$45,735,538	\$ 37,519,743	\$ 8,215,795	22%
Other Professional Service Fees	1,216,896	1,059,450	157,446	15%
Total - Professional Services Budget	<u>\$46,952,434</u>	<u>\$ 38,579,193</u>	<u>\$ 8,373,241</u>	22%

- Investment management fees consist of two components, management fees and performance fees. Management fees depend heavily on the size of assets under management, whose growth is projected by applying the latest 10-year capital market return assumptions to each asset class. The performance fee for a particular investment is generally projected by applying the incentive fee to the difference between the capital market assumption and the performance fee hurdle rate.

Investment Management Fees						
	FY 2025-26 Projected				FY 2024-25 Adopted	% of Change
	Fee (bps)	Management Fee	Performance Fee	Total	Total	
Investment Manager						
Total Public Equity	17.4	\$ 4,621,294	\$ 478,366	\$ 5,099,660	\$ 4,581,425	11%
Total Fixed Income	67.7	9,366,773	2,034,350	11,401,123	9,223,670	24%
Total Alternative Assets	167.6	14,258,938	1,254,263	15,513,201	14,310,540	8%
Total Inflation Hedge	99.1	11,327,955	781,813	12,109,768	8,199,108	48%
Total Cash Overlay	n/a	1,370,892	-	1,370,892	890,000	54%
Total Liquidity	8.5	240,894	-	240,894	315,000	-24%
Total	64.6	<u>\$41,186,746</u>	<u>\$ 4,548,792</u>	<u>\$ 45,735,538</u>	<u>\$ 37,519,743</u>	22%

n/a - Not applicable.

Projected management and performance fees for FY 2025-26 increase by \$8.2 million in aggregate from the prior year.

- Projected management fees increase by \$4.7 million, which are in parallel with the increase in the size of assets under management. Of this amount, \$3.1 million is from Inflation Hedge category, \$0.7 million from Alternatives, \$0.5 million from Overlay, \$0.4 million from Public Equity.
- Projected performance fees increase by \$3.5 million. Of this amount, \$2.0 million is from Fixed Income category due to newer investment managers added to the portfolio, \$0.8 from Inflation Hedge due to an increase in capital market assumptions, and \$0.7 million from Alternatives.

- Other professional service fees, mostly on per-service basis, are expected to have a net increase of 15%.

Other Professional Service Fees

Contractor	Service	FY 2025-26		FY 2024-25	% of Change
		(bps)	Projected	Adopted	
Milliman Inc.	Actuarial Consulting	0.1	\$ 175,000	\$ 129,450	35%
To be determined	Actuarial Audit	0.1	110,000	-	n/a
Verus Investments	Investment Consulting	0.5	642,146	630,000	2%
Northern Trust Inc.	Custodian	0.2	289,750	300,000	-3%
Total		1.0	<u>\$ 1,216,896</u>	<u>\$ 1,059,450</u>	15%

n/a - not applicable

- Actuarial consulting fees increase by 35%. The increase is predominantly driven by the Triennial Experience Study that is due in 2026 and scheduled increase on the annual valuation fee due to cost-of-living adjustment.
- An independent actuarial consulting firm will be engaged to conduct the audits of Triennial Experience Study and Actuarial Valuation that are due in 2026.
- Investment consulting fees are projected using current fees plus an inflation adjustment in March 2024.
- Custodial fees decrease modestly following a competitive Request for Proposal process.

Administrative Budget – accounts for administrative expenses such as salaries and benefits. Government Code §31580.2(a) of the County Employees’ Retirement Law of 1937 limits SamCERA’s administrative budget to twenty-one hundredths of one percent (0.21%) of the accrued actuarial liability of the retirement system.

The proposed administrative budget for FY 2025-26 is \$9.2 million, modestly above the adopted budget for FY 2024-25 by 6%. This amount approximates to 0.12% of the total accrued actuarial liability of \$7.4 billion as of June 30, 2024.

	FY 2025-26 Proposed	FY 2024-25 Adopted	Increase (Decrease)	% of Change
Salaries and Benefits				
Salaries	\$4,863,139	\$4,488,711	\$ 374,428	8%
Benefits	1,947,567	1,901,335	46,232	2%
Total Salaries and Benefits	<u>6,810,706</u>	<u>6,390,046</u>	<u>420,660</u>	7%
Services, Supplies and Other Charges				
Board Expense	8,000	8,000	-	0%
Insurance	173,500	120,000	53,500	45%
Medical Record and Appeal Hearing	150,000	125,000	25,000	20%
Member Education	75,000	70,000	5,000	7%
Education and Conference	165,827	149,862	15,965	11%
Transportation and Lodging	147,019	159,753	(12,734)	-8%
Property and Equipment	55,800	55,800	-	0%
General Office Supplies	41,000	40,000	1,000	3%
Postage and Printing	30,600	25,000	5,600	22%
Leased Facilities	773,242	767,742	5,500	1%
County Services	611,600	642,010	(30,410)	-5%
Audit Services	69,800	64,800	5,000	8%
Other Professional Services	95,041	94,742	299	0%
Total Services, Supplies, and Other Charges	<u>2,396,429</u>	<u>2,322,709</u>	<u>73,720</u>	3%
Total - Administrative Budget	<u>\$9,207,135</u>	<u>\$8,712,755</u>	<u>\$ 494,380</u>	6%

Budget items with significant changes over the year are discussed below.

- Salaries increase by 8%. The increase is due primarily to a 5% scheduled increase from the latest labor negotiation in winter 2024. The remaining 3% increase provides a buffer to absorb merit increases and compensate short-term extra help workers as needed.
- Fiduciary liability insurance premium increases significantly by 45%. With a 35% growth in SamCERA’s portfolio over the last four fiscal years (from \$4.8 billion in 2020 to \$6.5 billion in 2024), Staff accepted the broker’s recommendation to increase the liability coverage from \$10 million to \$20 million in aggregate.

- Medical record and appeal hearing outlays increase significantly by 20%. SamCERA introduced a new policy, effective January 1, 2024, requiring every disability retirement applicant to take an independent medical examination.
- Education and conference spending increase by 11% to be in sync with the anticipated level of attendance and increases in registration fees.
- Transportation and lodging outlays are adjusted downward by 8% since certain educational events are available online.
- County service charges are adjusted downwards by 5% to match with the anticipated level of services. To support its operation, SamCERA employs services from various County departments (such as Treasurer, Controller, Election, Human Resources, and Information Services). Direct costs of such services are determined by the servicing departments; indirect costs are determined through the County’s cost allocation plan.
- Audit service charges increase by 8% after factoring in cost-of-living adjustment.

Information Technology Budget – covers projected expenses for information technology that are authorized by Government Code §31580.2(b). The Code states that “Expenditures for computer software, computer hardware, and computer technology consulting services in support of these computer products shall not be considered a cost of administration of the retirement system.”

The information technology budget for FY 2025-26 is estimated to be \$1.7 million, 28% above the adopted budget for FY 2024-25.

	FY 2025-26 Proposed	FY 2024-25 Adopted	Increase (Decrease)	% of Change
Computer Equipment and Software	\$ 25,000	\$ 25,000	\$ -	0%
IT Infrastructure:				
Software License and Maintenance	896,828	753,200	143,628	19%
Maintenance Tools and Equipment	225,000	225,000	-	0%
Contract IT Services	266,000	328,000	(62,000)	-19%
Imaging	25,000	25,000	-	0%
Consulting Services - New Pension System	300,000	-	300,000	n/a
Technology Research and Development	9,000	9,000	-	0%
Total - Information Technology Budget	<u>\$ 1,746,828</u>	<u>\$ 1,365,200</u>	<u>\$ 381,628</u>	28%

n/a - Not applicable

Budget items with significant changes over the year are explained below.

- The appropriation for Software License Maintenance increases by \$143,628 or 19%, mainly in the following areas:
 - \$31,628 increase in maintenance and support fees for the Pension Administration System Software (PASS) due to cost-of-living adjustment.
 - \$86,000 subscription fee to Amazon Web Services, which allows fast data visualization, data integration, and online queries with analytics.
 - \$25,000 to Rubrik Inc., whose services and products significantly reduce operational complexity through automated backup management, stronger ransomware protection, and simplified data recovery in cloud.
- The contract IT service charges are expected to reduce by 19% since the office door access technology upgrade is expected to be completed by this fiscal year-end.
- The \$300,000 appropriation for consulting services is designated for hiring a project manager, whose primary responsibilities include preparing a request for proposal to solicit a new pension administration system and helping management select a potential vendor.