

## **MINUTES**

### **FINANCE AND RISK MANAGEMENT COMMITTEE MEETING MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)**

**One McInnis Parkway, 1st Floor  
Retirement Board Conference Room  
San Rafael, CA**

**February 27, 2019 – 9:00 a.m.**

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The Board of Retirement for the Marin County Employees' Retirement Association encourages a respectful presentation of public views to the Board. The Board, staff and public are expected to be polite and courteous, and refrain from questioning the character or motives of others. Please help create an atmosphere of respect during Board and Committee meetings. If members of the public wish to speak on any agenda items, please alert the Retirement Administrator to that request prior to the matter being called.

#### **CALL TO ORDER**

Chair Werby called the meeting to order at 9:00 a.m.

#### **ROLL CALL**

PRESENT: Block, Given, Klein, Murphy, Werby

ABSENT: None

#### **MINUTES**

It was M/S Given/Klein to approve the November 28, 2018 Finance and Risk Management Committee meeting Minutes as submitted.

AYES: Block, Given, Klein, Murphy, Werby

NOES: None

ABSTAIN: None

ABSENT: None

#### **A. OPEN TIME FOR PUBLIC EXPRESSION**

Note: The public may also address the Committee regarding any agenda item when the Committee considers the item.

Open time for public expression, from three to five minutes per speaker, on items not on the Committee Agenda. While members of the public are welcome to address the Committee during this time on matters within the Committee's jurisdiction, except as otherwise permitted by the Ralph M. Brown Act (Government Code Sections 54950 et seq.), no deliberation or action may be taken by the Committee concerning a non-agenda item. Members of the Committee may (1) briefly respond to statements made or questions posed by persons

addressing the Committee, (2) ask a question for clarification, or (3) provide a reference to staff for factual information.

No members of the public provided comment.

## **B. NEW BUSINESS**

### **1. Administrative Budget Fiscal Year 2018/19 Quarterly Review**

Consider and review budget for quarter ending December 31, 2018

Retirement Administrator Jeff Wickman reported that administrative expenditures at mid-fiscal year are at 42.4% of the budgeted expense. The largest budget category is Salaries and Benefits which are under budget at 39.1% primarily due to position vacancies. This category is also driven by the number of payrolls in the period. There was an extra pay period in November causing an increase in workers' compensation costs for the quarter. Services and Supplies include fiduciary liability insurance for the year and additional costs for leasing and construction at One McInnis Parkway. Medical records review expenditures will be monitored through the 3<sup>rd</sup> quarter to determine if any adjustment to the budgeted amount is necessary.

Chair Werby asked if more accounts should be recorded on an accrual basis. In response, the Administrator indicated that could be done. Trustee Block indicated when expenses are irregular, accrual accounting becomes too complicated. Trustee Klein asked if medical records costs will increase going forward, and Mr. Wickman said these expenses would be monitored given the new consulting relationship with National Disability Evaluations (NDE). At this point Mr. Wickman was not able to speculate how costs may change. He is expecting some savings on the use of independent medical examinations based on early experience with NDE.

### **2. Non-budgeted Expenses**

Consider and review non-budgeted expenses for the quarter

The single biggest non-budgeted expense is retiree payroll which is consistent until April when the annual cost of living adjustment for retirees will be applied on April 1. The IBM – Cognos cost is for an annual license supporting CPAS. During the quarter, Cheiron was paid for the annual Actuarial Valuation and GASB 67/68 Reports, and Milliman was paid for the actuarial audit.

Staff will check on whether the annual appraisal of One McInnis is an insurance requirement, based on Trustee Block's inquiry. Nossaman General Counsel expenses include the cost of the Brown v. San Rafael case. They will be broken out separately on future reports. Otherwise legal costs are in alignment with the expected annual range.

### **3. Quarterly Checklist**

Consider, review and updates on the following:



a. MCERA educational and event-related expenses

Trustee and Event-related expenses have been updated to include all event expenses for the first half of the fiscal year. The Administrator spoke to the value of educational events.

b. Continuing Trustee Education Log

Mr. Wickman reported all trustees are meeting education requirements. He explained that the Education Log includes all events attended during the quarter.

c. Other expenses per Checklist Guidelines

Credit card expenditures include catering for the Strategic Workshop and the offsite lunch for the Board and staff. Other expenditures include audio visual repair after the Strategic Workshop. Accounting Unit Manager La Valda Marshall addressed the \$49 late fee and assured the Committee of improved processes to prevent such further expenses.

d. Variances in the MCERA administrative budget in excess of 10%

See discussion above.

e. Vendor services provided to MCERA

No new vendor services since the last Committee meeting.

f. MCERA staffing status

The Administrator reported staff is working with the Human Resources Department on a recruitment for the vacant Senior Accountant position.

g. Internal controls, compliance activities and capital calls

In the private equity program, MCERA received over \$19 million in distributions and paid just over \$13 million in capital calls during the quarter. Staff has been asked to put historical information together on the private equity program that was initiated with two managers in 2008. No new commitments were made this year so that distributions will bring the private equity program down from 11% of the Fund, which is the high end of its 8 to 12% target range. Trustee Block noted as private equity funds become old, they bear watching for requests for extensions. Mr. Wickman replied staff and investment consultant are aware of issues with so called "zombie funds."

h. Audits, examinations, investigations or inquiries from governmental agencies

Nothing to report from other government agencies. The Administrator will be scheduling a meeting of the Audit Committee in March.

- i. Other items from the Administrator related to risk and finance

The Department of Labor notified MCERA that they will be coming in to audit the ADP Payroll system used to pay trustees to attend Board meetings. Trustee Given noted it is not unusual to have such an audit.

#### 4. Information Technology Risk Assessment Report

Staff Report on the status of IT security risks and compliance with MCERA policies and procedures

Assistant Retirement Administrator Michelle Hardesty presented the Information Technology Risk Assessment Report that identifies internal and external business tools and areas of risk. The County is completing an internal risk assessment and will be doing an external audit this year. Ms. Hardesty noted the County conducts extensive internal testing on an ongoing basis, and next year will be implementing a whole new policy suite that will be included in the next risk assessment. Trustee Given added that the County has new auditors and part of their internal control is to sit down with the Information Services and Technology Department representatives and go over their responses as part of the normal course of action. Mr. Wickman confirmed our auditors do the same process at MCERA. Ms. Hardesty explained that part of IT security is making sure the appropriate people have access to information and portals. Due to increasing complexity, outsourcing some of the assessment processes will be considered. Ms. Hardesty reported an incident involving Innovest Fulfillment Services (Innovest), one of MCERA's business tools, where they overwrote MCERA data files. No MCERA records were disclosed. Innovest has since added capacity warnings, and MCERA has received assurances this would not happen again. Staff added internal controls for reviewing the Innovest files when they are uploaded. Staff are also reviewing protocols on data breaches. Mr. Wickman indicated staff has reviewed the related agreement with Innovest and is looking into updating the agreement.

Trustee Block said the status of our focus on our vendors is well placed. He inquired as to whether in our vendor agreements we define what a data breach is and create an affirmative obligation for the vendor to disclose any data breaches and warranty that they have done so. Staff will review the agreements accordingly. Chair Werby asked about the security of CPAS data. In response, Ms. Hardesty explained that CPAS encrypts the information going between MCERA and its server, and from there into CPAS. They do not see social security numbers, for example, she said.

Trustee Klein asked if we want to replace Innovest, and Ms. Hardesty replied it was determined the Innovest incident was isolated. Mr. Wickman added that staff agrees with concerns with respect to Innovest. He said generally Innovest has been a good partner for MCERA and will be monitored, but the incident does not rise to the level of considering replacing the vendor. Trustee Block referenced his idea to bring in a consultant on cyber security, and Mr. Wickman said that discussion is scheduled for the Strategic Workshop in April.



5. Budget Priorities for Fiscal Year 2019/20 (Action)

Consider and take possible action to recommend budget priorities for fiscal year 2019/20

Mr. Wickman presented budget priorities for the 2019/20 fiscal year. He said that, as with past years, the budget would be finalized in May or June to correspond with the County's budget process. This timing allows for incorporating items from the County's budget that affect MCERA's budget. As an example, last year the cost of living adjustment agreed on with employees effective July 1, 2018 came in lower than we had budgeted. The budget priorities are:

- Set benefit multiplier to align with County expected costs.
- Include a 3.0% cost of living adjustment previously negotiated for County employees.
- Review existing vacant positions to determine if reallocation is appropriate based on needs.
- Revise medical expenses for disability benefit processing based on FY 2017/18 data.
- Purchase scanner/indexing bar code hardware and software.
- Enhance video and audio recording capabilities for Board meetings.

The Administrator explained that certain expenditures including legal and investment related items are not part of the administrative budget. By statute, the administrative budget cannot be more than 21 basis points of the total liability. Together, the Salaries and Benefits category and Services and Supplies category make up over 90% of the administrative budget. As such, the benefit multiplier is a significant factor in the budget and has been set at 60% and could be affected by medical costs. Mr. Wickman highlighted plans to live stream Board meetings and have meeting materials on the website.

The Administrator invited comments on the budget priorities. Trustee Block inquired about items such as issuing Requests for Proposals, considering a cyber security consultant, or possibly moving. Mr. Wickman said such items would not impact the administrative budget as they would involve either staff time or non-budgeted expenditures. Trustee Klein asked about a cost benefit analysis on One McInnis Parkway referenced in the Committee Charter. In response, Mr. Wickman stated the idea is MCERA would retain its offices at One McInnis. Counsel Dunning noted there has been analysis on an ongoing basis and the Committee can discuss and consider how to do this in the future. Trustee Given noted we were looking at this holistically and went through a cost analysis that included visiting alternative properties, which resulted in the decision to keep One McInnis Parkway. Mr. Wickman indicated the current focus is on leasing the existing vacant space, at least on the second floor.

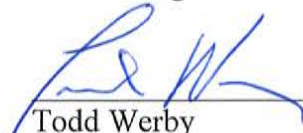
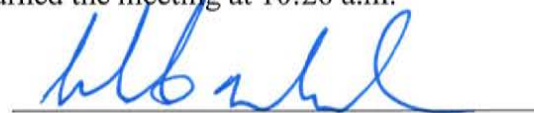
Trustee Given expressed appreciation for having time to review priorities for the administrative budget. Chair Werby said the Committee gives implied direction to the Administrator to proceed with the administrative budget.

6. Future Meetings

Consider possible agenda topics for future meetings

The Committee's next meeting will be held on May 22, 2019.

There being no further business, Chair Werby adjourned the meeting at 10:26 a.m.

  
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Todd Werby  
Chairperson  
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Jeff Wickman  
Retirement Administrator