

MINUTES
AUDIT COMMITTEE MEETING
MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)

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

May 22, 2019 – 12:30 p.m.

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 item, please alert the Retirement Administrator to that request prior to the matter being called.

CALL TO ORDER

Chair Gladstern called the meeting to order at 12:30 p.m.

ROLL CALL

PRESENT: Block, Given, Gladstern

ABSENT: None

MINUTES

It was M/S Block/Given to approve the April 24, 2019 Audit Committee Meeting Minutes as submitted.

AYES: Block, Given, Gladstern

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. 2019 Audit Schedule – Andy Paulden, Partner, Brown Armstrong
Review and discuss schedule of audit activities for 2019

Andy Paulden, Partner with Brown Armstrong, presented a list of critical dates for the annual financial audit. Mr. Paulden said the audit schedule begins with a planning stage that leads into interim field work during July. By mid-August final field work planning is completed and the auditors conduct final field work onsite. During final field work the books are closed and final values are released to the actuary to compose GASB 67/68 reports. The audit wrap-up phase begins in September that would include a conference call or meeting with the Audit Committee and staff. After draft reports are issued and input is provided, the auditor develops clean draft financials and begins the process of getting information from the actuary. These results would be presented to the Audit Committee for review prior to final presentation of the financials to the Board in December.

Retirement Administrator Jeff Wickman explained that the timing is later than in the past to leave time for the actuary to create the GASB 67/68 reports. Chair Gladstern asked if other systems are experiencing this timing issue, and Mr. Paulden indicated this has been his observation because the timing of producing the GASB reports corresponds with the annual actuarial valuation. Mr. Paulden said he will make every effort to release data to the actuary as soon as he is comfortable doing so. Mr. Wickman said the Actuary typically needs until the end of October to develop the GASB reports.

2. June 30, 2018 Financial Statement Disclosures
Review and discuss financial disclosures

Mr. Wickman presented the audited financial statements from June 30, 2018 to guide discussions along with comments distributed to Committee members from Trustee Block. Trustee Block said his first question has to do with fair value, indicating that the term was superseded by new language when GASB Statement No. 72 was implemented in 2016. Mr. Wickman said there are two places in the Notes to Financial Statements referring to fair value. He noted that in reviewing the financial reports of other 1937 Act systems many have combined the fair value into a single section and aligned the language with the GASB 72 requirements. Mr. Paulden agreed that the fair value language can be refined and paired down to following appropriate Generally Accepted Accounting Principles (GAAP) in relation to disclosures, and then reference the other information on fair value. Mr. Wickman concurred that this section will be reviewed to line up with new language on fair value.

Trustee Block noted that in Note 3, pooled investments are excluded from the policy requirement limiting holdings in any investments or in any one issuer to less than 5% of total investments. He asked whether holdings of individual securities in commingled accounts greater than 5% need to be disclosed. Mr. Wickman replied that prior disclosures

focused at the individual security level. Trustee Given supported his view. Mr. Paulden referenced ERISA standards that require disclosing holdings of individual securities of 5% or more of the portfolio.

Referencing the section on Methods Used To Value Investments, Trustee Block asked who is valuing securities held by MCERA. Mr. Wickman recommended that this section be reviewed to align it with the fair value language. Trustee Block also inquired whether securities that are not rated need to be disclosed. In response, Mr. Wickman said fixed income securities in the Colchester global bond fund are not custodied with State Street and these bonds represent all the unrated amounts. Future statements will disclose the ratings for all bonds in the MCERA portfolio.

Trustee Block asked about the definition of credit risk that he indicated is different from what we are using. He also inquired about accounting for collateral in securities lending operations. Mr. Paulden noted both the underlying asset and the collateral are accounted for. Mr. Paulden explained that what it says is cash collateral, which is cash, meaning even though you have an underlying security, duration is not applicable because it is overnight or short term. Trustee Block inquired about foreign currency risk and how to compare currency holdings listed. The Administrator replied that foreign currencies are custody assets under State Street and there is a question if it should be disclosed. Mr. Paulden said the question warrants further discussion with staff.

For private equity funds, Trustee Block asked about appropriate disclosures. Mr. Wickman replied he looked at five statements of peers and found similar disclosures to what MCERA currently provides. Mr. Paulden said a private equity fund has commitments and withdrawals from the fund, and he is looking for the entity to provide fair value for its holdings. He said the private equity funds do not have duration risk. Trustee Block said by duration he is talking about the period over which the vehicle will be liquidated. Counsel Dunning said she wondered if there is a difference for a fund that is not eligible for redemption. Trustee Block noted we already disclose private equity funds as not available for redemption. He asked if we need to disclose whether they match the maturities.

For fair value of cash collateral held for securities loaned Trustee Block observed that this value is less than the fair value of securities loaned by MCERA. Mr. Paulden explained that only cash collateral is disclosed in the number and there can be securities also. The auditors test that the value of cash and securities exceeds the 102%, or 105% for non-U.S. securities.

Trustee Block asked whether positions in the futures overlay program are reflected in the investment derivatives summary and additional disclosures are needed for futures contracts and capital calls. In addition, Trustee Block indicated additional policies on reserves are needed since the standard requires it. There was general agreement the discussion has been valuable and the Notes to Financial Statements will be improved. Mr. Wickman will look into remaining questions.

3. Financial Auditor Request for Proposal (RFP)

Review and discuss issuance of financial auditor RFP

Mr. Wickman presented the draft Request for Proposal (RFP) for a financial auditor. The proposed RFP has been through internal staff review. The Administrator said the next step will be to get counsel's review of the draft and model contract. At the suggestion of Trustee Block, Mr. Wickman will add a requirement to the RFP regarding the auditor maintaining the security of data when transmitting data.

4. Future Meetings

Consider possible agenda topics for future meetings

No discussion.

There being no further business, Chair Gladstern adjourned the meeting at 1:35 p.m.



Maya Gladstern, Chairperson



Attest: Jeff Wickman
Retirement Administrator