

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

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

August 14, 2019 – 11:00 a.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 items, 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 11:00 a.m.

ROLL CALL

PRESENT: Block, Given, Gladstern

ABSENT: None

MINUTES

It was M/S Block/Gladstern to approve the May 22, 2019, Audit Committee Meeting Minutes as submitted.

AYES: Block, Gladstern

NOES: None

ABSTAIN: None

ABSENT: Given

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. Financial Audit Review – Fieldwork Phase – Andy Paulden, Brown Armstrong Review and discuss preliminary Fieldwork Phase results

Andy Paulden, partner with Brown Armstrong responsible for all auditing services for MCERA, reviewed auditing activities since the Audit Committee's (Committee) May 22, 2019 meeting.

Trustee Given joined the meeting at 11:05 a.m.

Mr. Paulden reported that the auditors conducted a key component of the audit process, comparative, predictive procedures such as ratio analysis, and the result was that nothing rose to the level of concern. The auditors also look at internal controls by selecting transactions to determine the reliability of procedures and controls. Another component of the audit process is conducting fraud interviews with staff and Board members and no issues of concern were found. To gain a better insight into MCERA's activities, the auditors look at minutes of Board meetings to consider items that may have to do with the financial statements. Auditors also update their permanent file for items such as agreements that have been amended or new agreements MCERA has entered into during the audit period. Mr. Paulden emphasized the importance of the process of testing data from plan sponsors flowing through MCERA and to the actuary as well. The auditors will also be testing data on deceased and terminated members. Mr. Paulden reported he sees no impact on audit procedures to date.

As part of building on procedures, auditors see what they can find on the internet to be concerned about and nothing was found. The auditors review information on departed Board members and staff to understand why they left, where they went, and whether there are any related-party or other issues that they need to know about. There were no issues identified in this area, Mr. Paulden reported. As the Committee directed, the auditors are working with staff to improve information in the Notes to Financial Statements for incorporation into the first draft of the financial statements. Mr. Paulden stated that the process is going as expected and there are no findings to date, so the auditors are moving forward as planned.

Chair Gladstern asked how many Brown Armstrong staff are on site and whether there is a mix of people with more experience as well as less. In response, Mr. Paulden said there will be three or four auditors with a good cross-section of experience because it is their responsibility to have competent staff conduct the audit. Trustee Block asked if another Note is needed for the private equity income that carries over from the previous year. Mr. Paulden replied, yes, this is a standard Note reflecting anything that changes from period to period that the reader needs to be aware. Trustee Block pointed out that staff is looking at a write-down in the UBS retail portfolio and whether AEW is comfortable with its retail valuation. Mr. Wickman added he will share anything he finds out about the AEW

valuation process with the Board. Mr. Paulden thanked Trustee Block for bringing this to his attention.

Mr. Paulden left the meeting.

2. Request for Proposal (RFP) – Financial Auditor
Review and discuss evaluation of responses to RFP

Mr. Wickman discussed his memo on the Request for Proposal (RFP) process. On June 3, 2019 the RFP was sent to ten different firms. Most were sent directly via email, and some were sent through a website portal. The original due date for responses to the RFP was July 8, 2019. Prior to the due date a confirmation was received from one firm that they were declining to bid. At the due date two additional firms also provided notice they would not be bidding. That left seven firms that received the RFP whom MCERA had not received any contact from. On July 10, 2019, Mr. Wickman notified the Board that there was one qualified response to the RFP. Mr. Wickman recommended that the deadline for response be extended one week to July 17, 2019. At the end of the new deadline only one other firm provided a response to the RFP. When the second response was evaluated against the minimum qualifications listed in the RFP, deficiencies were identified. A key deficiency was the requirement that the auditors be licensed and in good standing with the State of California. The proposal noted that the auditors being proposed were licensed CPAs and had a mobility with California but were not licensed in the State. A second issue was that one of the proposed auditors was still in the process of earning the CPA license. Staff determined that the response did not meet minimum qualification and therefore should not be considered valid for review. Staff considered changing the RFP language to alter the standard for having a CPA license but felt this was not a viable option. Trustee Given supported this view.

Mr. Wickman recommends notifying the second respondent that it did not meet minimum qualifications and entering into a contract with the only qualified response which was received from Brown Armstrong. Board Counsel Ashley Dunning and Mr. Wickman agreed it was best to have the Committee make the decision on the Administrator's recommendation. Trustee Given recommended that, in continuing with Brown Armstrong as MCERA's financial auditor, the audit manager be changed, and the new manager have experience in '37 Act pension systems. For example, Andy Paulden could move over to the review partner, and the responsible partner would take over.

Trustee Block agreed on the need to have a CPA in charge of the audit. He asked about the Administrator's impression that MCERA's fees paid for financial auditing are small. Mr. Wickman explained that MCERA's auditing requirements were fairly standard since a CAFR is not produced and that means the costs for the services are modest. Firms considering whether to bid may have factored this in when making their decisions on whether to bid. Chair Gladstern asked if we expect there will be additional costs for Brown Armstrong's auditing services going forward. Mr. Wickman replied we would like more consulting services from the auditor which could increase costs slightly. Trustee Given indicated that building a relationship with the new partner is important, and Mr. Wickman noted that Mr. Paulden knows what to expect after working with the Committee. Trustee Block said financial auditing is an important engagement and while cost is not

irrelevant, he would like to see other proposals, even if they were more expensive. Mr. Wickman agreed but said until MCERA adds producing a CAFR, which would increase the cost of the audit, other firms may not have an interest in the engagement. Mr. Wickman reminded the Committee that a new RFP could be issued again in the near future if it wished to do so.

3. Future Meetings

Consider possible agenda topics for future meetings

The Administrator indicated that the next Committee meeting planned for September 11 may need to be rescheduled, depending on how the auditor progresses on presenting preliminary audit results.

There being no further business, Chair Gladstern adjourned the meeting at 11:39 a.m.



Maya Gladstern, Chairperson



Attest: Jeff Wickman
Retirement Administrator