

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**

August 21, 2019 – 9:00 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 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 Block/Given to approve the May 22, 2019 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 Review

Consider and review expenses for fiscal year ending June 30, 2019

Accounting Unit Manager La Valda Marshall reviewed the administrative budget for the fiscal year ending June 30, 2019. For the last quarter of the fiscal year, total administrative expenses were \$1.02 million, 23% of the annual budgeted amount. Salaries and Benefits for the quarter were \$.7 million, 24% of the annual budgeted amount. Ms. Marshall pointed out that regular staff salaries were 1% over budget for the quarter due to an employee receiving an annual leave payout upon termination. Workers Compensation insurance is under the budgeted amount as a result of refunds received in the 4th quarter. Chair Werby asked why Workers' Compensation insurance is low. Mr. Wickman explained the number of claims was less than expected, which resulted in a refund. MCERA itself has not had any Workers' Compensation claims. Chair Werby noticed employee benefits were running lower than the budgeted amount and asked for the reason. Mr. Wickman explained employee benefits are budgeted for the year as a percentage of the total overall salary. Actual individual benefits will fluctuate and can deviate from the budgeted expenditure.

Ms. Marshall stated Services and Supplies expenditures were 2% under budget for the 4th quarter and 1% under budget for the fiscal year. Expenditures for records retention is 3% over the budgeted amount. Mr. Wickman explained staff is making a concerted effort to reduce the number of boxes stored at MCERA offices. In addition, staff will be examining the contents of offsite boxes to determine which may contain materials that are no longer needed in order to reduce the total boxes being stored. Chair Werby asked about record retention parameters and the Administrator explained MCERA has a Records Retention Policy. Trustee Block asked if we have a destroy date for records and Mr. Wickman replied that the policy addresses retention periods.

Utilities are trending 4% over budget for the 4th quarter due in part to the January 2019 increase in the owner's allocation. Ms. Marshall expects there will be a reconciliation and reclassification of some expenditures in the Utilities category to other categories before the books are closed for the year. Travel and mileage expenses were 1% higher for the 4th quarter and 3% under budget for the fiscal year. Document reproduction for medical records were 102% of the budgeted amount for the 4th quarter and 55% over budget for the fiscal year. Higher costs were balanced in part by the reclassification of transcribing costs in May 2019. Medical Examinations costs are trending lower and Medical Transcribing/Medical Record review is trending 12% over budget. Ms. Marshall presented a breakdown of these expenses, including National Disability Evaluations (NDE). Mr. Wickman noted that MCERA is charged for the review of unnecessary pages by the medical advisor. The disability coordinator is working with the medical advisor on how to reduce the costs through the use of technology and negotiation of a new fee structure.

Board Fees are 5% over budget for the 4th quarter and 8% over budget for the fiscal year due to increased Board member activity. Office phone expenses are higher due to increased data use for iPads that was not budgeted. Interdepartmental charges were 16% under budget for the 4th quarter and 12% under budget for the fiscal year.

For the fiscal year ending June 30, 2019, the total administrative expenses were \$3.9 million, 13% under the budgeted amount of \$4.5 million. Salaries and Benefits were 18% under budget. Trustee Block asked if MCERA had a lower head count for the fiscal year and the Administrator replied there were vacancies during the year, and this resulted in lower salary and benefit expenditures. Chair Werby asked why there was such a jump in the Employee Benefits budget, considering the lower expenses and budget for the prior year. Ms. Marshall indicated this was partly due to payroll timing because of the realized rate for employee benefits. Chair Werby asked what was budgeted for retirement benefits for the 2019/20 fiscal year, and the Administrator said the benefit factor was applied at 59% of salaries.

Services and supplies expenses for the fiscal year were \$1.14 million, 1% under the budgeted amount. Utilities were over budget by 19% as a result of MCERA having a higher owner allocation. This trend should change as new tenants are brought into the office. Medical records review expenses were 25% over budget for reasons discussed above. Expenses for phones and electronic supplies that were over budget for the fiscal year were also discussed above.

Interdepartmental charges were 12% under budget for the fiscal year and include County support services such as information technology and human resources. Trustee Given requested using the term "Cost Allocation Plan" for Interdepartmental Charges going forward.

2. Non-budgeted Expenses

Consider and review non-budgeted expenses for the quarter

Non-budgeted expenses include retiree payroll, computer, investment, legal, and other consultant expenditures. Ms. Marshall reported that retiree payroll for the 4th quarter was \$39.3 million and \$149.5 million for the fiscal year. Computer expenses totaled \$152,636 for the 4th quarter, and \$323,409 for the fiscal year and are mostly due to CPAS. In April the \$100,343 payment to CPAS has to do with maintenance and support. Trustee Block asked why there were big jumps for CPAS expenses in the 3rd and 4th quarter, resulting in another \$100,000 over what was spent in the prior fiscal year. Assistant Retirement Administrator Michelle Hardesty explained that MCERA pays CPAS an annual hosting fee and in April buys a contract for so many service hours for maintenance of the system. Because of the upgrade to CPAS 5.8, there was an additional lump-sum payment. Ms. Hardesty noted that the upgrade included key business functionality to allow MCERA to implement generational mortality capability which had been recommended by the actuary and adopted by the Board.

Legal expenses were \$155,432 for the 4th quarter and \$475,944 for the fiscal year. Investment managers fees for the 4th quarter were \$2.8 million and \$11.6 million for the fiscal year, lower than the prior fiscal year. Artisan fees were lower due to moving to a

separate account. Trustee Block noted lower investment fees may also be a reflection of asset level.

Total non-budgeted expenditures for the fiscal year were \$162.9 million, 5.8% higher than the prior fiscal year. Mr. Wickman pointed out that the biggest driver for retiree expenses is the increase in payroll, due to retirements in March and the annual Cost of Living Adjustment (COLA) in April. Cheiron expenses were higher because the actuary was doing work outside the normal, such as work on the County's salary increase. Also in that cost is the actuarial audit work and responding to related inquiries.

Trustee Klein asked about additional work Cheiron does for employer negotiated salary adjustments. Mr. Wickman replied it is up to the employer to find out what the effect of salary changes would be, so they can be presented to their governing bodies. Maya Gladstern asked where reimbursements from the County for providing retiree health benefit and investment-related services show up, and the Administrator replied that those items have been subtracted out of the administrative budget.

Responding to the Chair's inquiry, Mr. Wickman affirmed that under the County Employees' Retirement Law of 1937 (CERL), legal and investment expenses are allowed to be excluded from the administrative budget. Chair Werby asked if there should be a budget for those items that are outside the administrative budget. Mr. Wickman replied this is what the CERL allows and budgeting for those expenses is a question that the Committee could agendaize for future discussion if it wished. Ms. Dunning said it is at the discretion of the Board how to track non-budgeted items. She pointed out that MCERA has added transparency to its expenses over the years. In response to Trustee Block's inquiry, Mr. Wickman said the CERL requires the retirement system to have an administrative budget. Trustee Given said the only difference is whether we put an estimate to these numbers because the Committee is looking at them every quarter. Ms. Dunning pointed out that MCERA has no control over retiree payroll and has already contracted with investment managers. Trustee Block said investment manager expense bears some examination by staff first and by the Committee as to whether the expenses comport with what was expected. Trustee Given asked whether it is worth the additional staff time and effort to put a guess on those expenses. He pointed out that we do not know what the COLA is going to be, for example, and it is a lot of work to construct a budget. Trustee Block agreed staff time is an issue that needs to be considered. Mr. Wickman suggested that the Staff present internal controls around non-budgeted expenses at a future meeting.

3. Quarterly Checklist

Consider, review and updates on the following:

a. MCERA educational and event-related expenses

Mr. Wickman said Board member and staff event expenses for the year include all travel-related costs. His view is a reasonableness check and he is more concerned about those not getting enough education or anyone doing too much. On the staff side, there has been good participation in training opportunities. Trustee Given observed the event reporting does not include the 80 hours of training he attends every year to maintain his

CPA designation. Due to this training, he is not able to go to many of the Board-related events. Counsel Dunning indicated the CPA training could be included in the Education Log. Upon discussion it was agreed since the required 24 hours of education for MCERA are being achieved every two years, there is no need to add the CPA training to the Education Log. Chair Werby asked for clarification of the airporter per diem item and the NCPERS ACE conference fee, and Ms. Marshall said she will revise how those expenses are labeled.

b. Continuing Trustee Education Log

The Administrator said there are no challenges for Board members from an educational standpoint, as all trustees are meeting the 24-hour requirement every two years.

c. Other expenses per Checklist Guidelines

A list of credit card expenditures was presented for the Committee's review. Among the expenses are educational events, iPads, and food for Board meetings.

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

See discussion above.

e. Vendor services provided to MCERA

Brown Armstrong was the successful bidder on MCERA's Request for Proposal for auditing services, and staff will be working on a new agreement with them. In September Linea Secure will begin its cyber security assessment.

Trustee Given discussed the potential for members of the Board taking training provided by the Information Systems and Technology Department of Marin County. Mr. Wickman indicated the training is valuable and said he would work with County IST to try to make this happen.

f. MCERA staffing status

The Administrator said there is nothing new on staffing, and pointed out MCERA will be underfilling the vacant position of Administrative Assistant with a Benefits Technician.

g. Internal controls, compliance activities and capital calls

The Administrator said he has not yet produced the historical information on capital calls Trustee Murphy requested. Distributions received by MCERA from the Abbott private equity portfolio were \$25 million and capital calls were almost \$18 million for the fiscal year. Distributions from the Pathway private equity portfolio were over \$51 million and capital calls were over \$32 million for the fiscal year. Chair Werby asked why capital calls and distributions are not netted. In response, Mr. Wickman said the managers do sometimes net capital calls and distributions in a single notice. Trustee

Block said it may be clearer for the manager to make them separate. Mr. Wickman pointed out that staff added additional detail to Internal Controls regarding other cash activities during the quarter.

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

Nothing to report.

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

Mr. Wickman reported that staff submitted a report to the County's Risk Management office on electrical conduit that went through the ceiling and landed on a staff person's desk. No injuries were suffered in the event. The County responded to the report and offered assistance if needed.

MCERA has filed to recover reasonable costs related to the Greene v. MCERA case because it won the case. Recoverable costs total less than \$2,000 and may include some extra costs MCERA incurred such as hiring a service provider to file documents, for example, but not Counsel Dunning's attorneys' fees. Mr. Wickman is expecting to be challenged on the recovery request, and he and Ms. Dunning will discuss the degree of response.

j. Form 700 Summary

Mr. Wickman presented the Form 700 Summary which Nossaman puts together every year. The summary shows all economic interests of Form 700 filers, and flags areas where a trustee may need to think about the need to recuse. With this process, we are always doing a good job with any potential recusals, the Administrator said. He stated there is nothing unusual in the report. Counsel Dunning noted businesses listed as providing income to trustees may potentially not be considered if the Administrator were planning to contract for services that the businesses provide.

4. Annual Audit of Financial Statements Update

Update on audit process

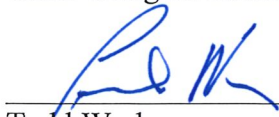
Mr. Wickman provided an update on the annual audit of financial statements at the August 14 Board meeting. The auditors are through the first phase of the audit and are back onsite at MCERA.

5. Future Meetings

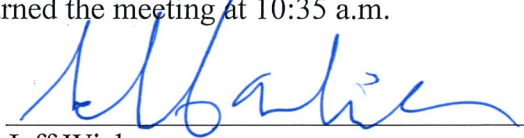
Consider possible agenda topics for future meetings

For future meetings, Mr. Wickman will include a discussion of controls for non-budgeted expenses and a discussion on the Linea Secure cyber assessment. There was discussion on the parameters around discussing the cyber report. The Administrator said he would work directly with Counsel to determine the best method to present the discussion to the Committee without exposing MCERA to potential cyber vulnerabilities that may be presented in Linea Secure's report.

There being no further business, Chair Werby adjourned the meeting at 10:35 a.m.



Todd Werby
Chairperson



Jeff Wickman
Retirement Administrator