

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

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

**November 6, 2019 – 11:00 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 Gladstern called the meeting to order at 11:05 a.m.

**ROLL CALL**

PRESENT: Block, Given, Gladstern

ABSENT: None

**MINUTES**

It was M/S Given/Block to approve the August 14, 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 member of the public provided comment at this time.

## **B. NEW BUSINESS**

### **1. Financial Audit Review – Andy Paulden, Brown Armstrong** Review and discuss audit results

Andy Paulden, Brown Armstrong CPA, reported the auditing team has made progress and completed draft financial statements. Comments are due today and then the audit will be wrapped up. Still pending for the financial statements is the information from the June 30, 2019 GASB 67/68 report. Mr. Wickman said the actuary indicated that the report will be delivered before the end of the week. Mr. Paulden is working toward the Board presentation in December and one more planned meeting with the Committee to present the final version of the financial statements. He said nothing is expected to hold up this process and he is pleased with the audit process to date.

One of the key deliverables from Brown Armstrong is the Independent Auditor's report that will accompany the financial statements. There are no exceptions for adherence to Generally Accepted Accounting Principles (GAAP) and Mr. Paulden expects to issue an unmodified or clean opinion. Ancillary reports issued include a report dealing with the Government Auditing Standards requiring auditors to look at MCERA's internal controls and compliance for items that may have a material impact on the financials. No issues are reported, nor have the auditors identified any compliance issues.

The other key document will be the Statement of Auditing Standards (SAS 114). The auditors are obligated to report any issues, adjustments or disagreement on auditing matters to the Board. Mr. Paulden presented a revised draft and pointed out it differs from the original draft report due to a timing issue of private equity values. Trustee Given asked what the changes were, and Mr. Wickman said on page 4 a schedule lists an adjustment of approximately \$15 million to the private equity portfolio due to the quarter lag in reporting fair value of MCERA's private equity investments, and on page 2 there is corresponding revised wording to explain the difference. Mr. Paulden explained that additional information came to the auditors' attention within the audit period resulting in the supplementary schedule to insert that journal entry. He noted there was a similar adjustment in last year's final statements. In summary, Mr. Paulden stated this is a very standard report and there are no disagreements with management or implementation of new policies.

Trustee Block observed the private equity adjustment is almost the same number as last year. Mr. Wickman that the addition of the new GASB 67-68 reporting requirements has extended the audit period by nearly 30 days. As a result, before the audit is closed new private equity values have been received and the adjustment needs to be reflected in the financial statements. Trustee Block asked if last year's adjustment should be disclosed in this year's statements. Mr. Paulden said it is out-of-period income, but this is the reporting mechanism and if it is appropriately disclosed, then he is not sure of the value of further reporting on it as it may cause confusion. Trustee Given said in his view we are handling

this properly and the net effect is almost zero. Mr. Wickman agreed with Trustee Given, and said he is comfortable with the revised report and additional disclosures. Counsel Dunning discussed litigation dates that have changed from those included in the draft report, and the auditor assured her he would make the corrections and will be asking her for an update before the final report is published.

2. Financial Statements – Andy Paulden, Brown Armstrong  
Review and discuss draft June 30, 2019 financial statements

Mr. Paulden said auditors have been working on changes to the financial statements suggested by the Committee. Mr. Wickman said after materials for today's meeting went to the Committee, a question was raised by Trustee Block about the Credit Risk schedule on page 15. Staff noted that the Colchester global bond portfolio is a commingled vehicle that has a unitized value. MCERA owns units of the fund. Colchester did provide additional disclosures that staff will review and determine if they should be included under the Credit Risk schedule. Trustee Block said he understood this issue after the clarification by the staff.

Trustee Gladstern asked about the changes in Reserves from the prior year on page 6 of the draft financial statements. The Administrator explained that MCERA credits interest to member accounts at a rate equal to the assumed rate of investment return (7%). In compliance with the Board policy, earnings for the fiscal year are first credited to all valuation reserves Employer Groups. If earnings are insufficient to credit to reserves of any Employer Group at the assumed rate of return, the deficiencies are tracked in a Contra Account. For this fiscal year because earnings were less than the assumed rate, but member accounts are credited with that rate, there were insufficient earnings which are reflected in the Contra Account. When earnings are greater than needed to credit reserves the Contra Account is brought back to a zero balance. Mr. Wickman pointed out some County Employees' Retirement Law of 1937 (CERL) systems do not use the assumed rate of return, and this could be changed in MCERA's Interest Crediting Policy.

Discussion included Trustee Given's question on "Other Bonds" listed under interest rate risk on page 16 with no duration. Senior Accountant Lisa Jackson replied there are futures contracts in that category. Trustee Block indicated that the UBS Trumbull Property Fund portfolio may constitute a concentration of investments in any one entity over 5% of the investment portfolio. Upon discussion it was determined that the UBS portfolio value as of June 30, 2019 was less than 5% of the Fund, and therefore it is not an issue.

Note 5 of the Financial Statements discloses derivative financial instruments, and Trustee Block asked why these amounts do not include the derivatives used in the overlay program. Mr. Paulden replied this is because overlay program derivatives settle overnight, and the accounting cutoff is midnight June 30, 2019 for the financial statements. Trustee Block then asked if we need additional disclosure about the volume of overlay positions, given the fact we effectively have a \$40 million futures position every day. Trustee Given said we are comparing the value at the end of the day, and he is not sure it rises to the level of financial disclosure. Mr. Paulden stated that for MCERA the materiality amount would be \$39 million. Mr. Wickman explained that the derivatives are disclosed as cash on hand which was below \$39 million on June 30, 2019. Mr. Paulden indicated that he would need

to dig deeper into other transactions before changing the method of disclosure. Trustee Block said this is specific to the derivatives as the risk is not disclosed in the balance sheet and they settle every night. Mr. Paulden noted the overlay program derivatives settle to zero risk every day in the normal course of business. Mr. Wickman observed the overlay program is disclosed in our policies and in reviewing the overlay program on a regular basis.

In summary, Mr. Paulden discussed items that will be updated at least to within 10 days of his audit report, including dates that Counsel Dunning pointed out will shift. Other items will be added once the GASB 67/68 reports are completed. Trustee Block said staff did a good job and indicated that going forward more information in terms of balance sheet changes as to why are these numbers are different could be considered. Trustee Given agreed and indicated this report is fine and there can be more information when MCERA develops a Comprehensive Annual Financial Report (CAFR).

3. Future Meetings

Consider possible agenda topics for future meetings

The Committee will meet next on December 4, 2019 after the Investment Committee meeting to consider the final draft of the financial statements.

There being no further business, Chair Gladstern adjourned the meeting at 12:06 p.m.

  
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Maya Gladstern, Chairperson

  
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Attest: Jeff Wickman  
Retirement Administrator