

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**

November 20, 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 9:01 a.m.

ROLL CALL

PRESENT: Block, Given, Klein, Murphy, Werby

ABSENT: None

MINUTES

It was M/S Given/Block to approve the August 21, 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 2019/20 Quarterly Review

Consider and review expenses for quarter ending September 30, 2019

Accounting Unit Manager La Valda Marshall reviewed expenditures for the quarter ending September 30, 2019, the first quarter of the 2019/20 fiscal year. The total approved administrative budget for the fiscal year is \$4.6 million and \$840,249 or 18.1% was expended during the first quarter. Salaries and Benefits expenditures were \$461,000 or 14.9%. Along with having only five pay periods in this quarter, two vacant positions are the main reason why expenditures were under the budgeted amount. Chair Werby asked if pay periods can be uniformly budgeted. Ms. Marshall explained that salaries are recorded on a cash basis. She discussed the monthly accrual option and there was general agreement this process would be unnecessarily complicated.

Services and Supplies expenditures were \$293,704 or 24.3% of the budgeted amount. Expenses for Records Retention were 39% of the budgeted amount of \$2,700 due to a rate increase and more boxes being stored. Mr. Wickman discussed staff's continuing efforts to reduce the number of boxes stored by removing items not requiring storage. He and Ms. Dunning explained the need to keep certain records in perpetuity. Chair Werby asked about electronic storage and the Administrator replied this could be done but would be a cost tradeoff.

Bank charges were well under budget for the quarter as there were no account analysis activities. Insurance premiums were also under budget, but the annual fiduciary liability insurance for the next year will be paid after the Board is presented with the policy renewal in December. Membership and dues are also paid on an annual basis and were slightly over budget for the quarter for this reason. Conference and training expenditures were within the quarterly budget amount and are detailed in the Quarterly Checklist below.

Document reproduction expenses were slightly under budget for the quarter. These are related to the medical expenses, Mr. Wickman stated in response to Chair Werby's inquiry. He further stated that a new copy machine has been leased for the benefits/finance teams. Mr. Wickman noted that staff had been using the administration printer for color copying. By adding the new printer Mr. Wickman expects the costs of color copying to decrease for the administration printer. That savings will be offset by color copies being made on the new printer in benefits/finance. Expenses for medical exams, investigations and transcribing were under budget for the quarter at 17.4% and are trending lower. Trustee Block asked for update on where we are on gaining efficiencies for disability records. Mr. Wickman said for medical evaluations an agreement was reached that lowers the per-page cost for reviewing duplicate documents. Also, new software was purchased that will allow the disability coordinator to remove duplicate pages before submitting them for review.

This will lead to lower costs for the review of medical documents. Investigation expenses included background checks on new MCERA employees.

Board elections are held in the summer and expenditures are within the amount budgeted for the fiscal year. Office expenses were over budget for the quarter due to data services for the Board iPads that were not budgeted.

Interdepartmental charges include accruals for telephone service and the County's Cost Allocation Plan for its services, such as Human Resources, for example. The personal computer lease was moved to non-administrative expenditures. In response to Chair Werby's inquiry, Mr. Wickman explained the budgeted amount for the personal computer lease will remain in the Administrative Budget because it was formally approved by the Board. It would take a corresponding action by the Board to remove the budgeted amount. There was general agreement the personal computer lease will be moved to non-budgeted expenses for the next fiscal year's budget.

2. Non-budgeted Expenses

Consider and review non-budgeted expenses for the quarter

Non-budgeted expenses include retiree payroll of \$38.6 million for the quarter and total retirement member expense including death benefits of \$39.3 million. Legal expenses totaled \$90,767, of which 86% is for Board counsel (Nossaman) expenses that are detailed in the report. Leasing work by Nossaman will be broken out in legal expenses on the next report, the Administrator said. Investment manager fees were \$2.9 million and are listed by manager in the separate fee schedule.

Total non-budgeted expenditures were \$42.5 million for the quarter and include actuarial and investment consulting. Trustee Block asked about the two significant consulting projects on cyber assessment and the custodial search. The Administrator noted that neither vendor has billed MCERA for services thus far.

3. Quarterly Checklist

Consider, review and updates on the following:

a. MCERA educational and event-related expenses

The Administrator stated educational and event-related expenses were under \$7,000 for the quarter. In addition to events for the Retirement Administrator and trustees, there was considerable staff training, with good results from the CalAPRS Accountants' and Benefits Roundtables.

b. Continuing Trustee Education Log

The updated Continuing Trustee Education Log shows trustees' progress toward the 24 hours of education required every two years. Electronic materials for some conferences are available and can be used for this purpose.

c. Other expenses per Checklist Guidelines

A summary of credit card charges was presented that are normal for the quarter.

Variances in the MCERA administrative budget in excess of 10%

See discussion above.

d. Vendor services provided to MCERA

Mr. Wickman reported that some 1937 Act systems have an internal audit function that works closely with staff and the external auditors. Although MCERA would not be able to justify a full-time internal auditor, it may be worth investigation contracting with an outside CPA firm that could support this function.

e. MCERA staffing status

Screening for the Business Systems Analyst and Benefits Technician positions is underway, and interviews will follow at the end of the month.

f. Internal controls, compliance activities and capital calls

Total private equity program capital calls for the quarter were \$4.6 million and total distributions were \$9.9 million. On December 4, the Investment Committee will consider new commitments for the private equity program. Trustee Klein asked that the data be updated from the previous report dated March 2019.

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

The update on the annual financial audit is provided in Agenda Item B.3 below. The Administrator reported that one of the areas that came out of Linea Secure's cyber penetration testing was the ability to potentially access MCERA's card reader system. Mr. Wickman noted that a decision had already been made to install a new card reader system that could manage multiple suite entry points in the building. The new system has been installed and the vendor has recommended moving to a virtual local area network. Mr. Wickman has asked Linea Secure to review the new system's architecture and configuration and make a recommendation to MCERA about how to best avoid any vulnerability.

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

The Administrator reported that he had additional conversations with MCERA's property manager, Woodmont Real Estate Services, about back-up power as a result of the recent PG&E Public Safety Power Shutoffs. The best option would be to consider installing a covered solar parking lot similar to what you see at a number of public schools in Marin. Solar panels from the lot could generate a significant amount of power for One McInnis Parkway and reduce the overall PG&E costs. Mr. Wickman

said he would work with Woodmont to develop an estimate of what it would take to implement a solar panel parking lot structure.

4. Annual Audit of Financial Statements Update

Update on audit process

The Administrator reported that the Audit Committee met with staff and Brown Armstrong for an update on the audit status. On December 4 the Audit Committee will review the final financial statements and consider whether to make a recommendation to the Board to adopt the financial statement. Mr. Wickman said this first year of the Audit Committee process has been a positive for the Board, and Brown Armstrong has done an excellent job at those meetings.

5. Future Meetings

Consider possible agenda topics for future meetings

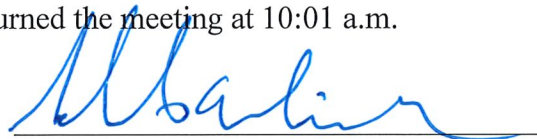
The Administrator said one of the topics for a future Committee meeting will be a review of existing internal controls. Trustee Block requested that the Committee have an annual review of MCERA's insurance coverage, and he discussed areas he would like to address. Chair Werby asked whether MCERA should have one broker advise on all needed coverages. Ms. Dunning said Nossaman can provide a more general insurance review. This can include aspects of insurance that are handled through the property manager and the County. Trustee Given recommended that the Committee take a look at what insurance MCERA has first and then discuss other courses of action if necessary. There was general agreement to follow Trustee Given's approach and prepare something for the next Committee meeting.

There was a general discussion about the amount of time spent on property issues by the Administrator and next steps once leasing the second floor is complete.

There being no further business, Chair Werby adjourned the meeting at 10:01 a.m.



Todd Werby
Chairperson



Jeff Wickman
Retirement Administrator