

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

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

December 4, 2019 – 12:00 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 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 12:32 p.m.

ROLL CALL

PRESENT: Block, Given, Gladstern

ABSENT: None

Board Chair Steve Silberstein attended the meeting as a guest.

MINUTES

It was M/S Block/Given to approve the November 6, 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. Annual Financial Statements – Andy Paulden, Brown Armstrong (Action)

Review and consider recommending that the Board of Retirement adopt the June 30, 2019 financial statements

Andy Paulden of Brown Armstrong presented draft financial statements and audit reports for the fiscal year ending June 30, 2019 for consideration by the Audit Committee. He introduced colleague Ashley Casey who attended the meeting by audio conference. Mr. Paulden reported that Brown Armstrong's responsibility is to conduct the audit in accordance with professional standards. These include auditing standards generally accepted in the United States of America and the related standards contained in *Government Auditing Standards (GAS)*. The first duty is to render an opinion on the financial statements, and this has been done. Other standards require going beyond the normal by considering the conduct of staff, for example. Deliverables in addition to the auditor's report include the Required Communication at the Conclusion of an Audit in Accordance with Professional Standards (SAS 114) 114, report on Internal Control Over Financial Reporting and on Compliance and Other Matters in Accordance with GAS, and a Management Letter having to do with agreed upon conditions.

Mr. Paulden explained that the audit focuses on two significant risk areas, revenue recognition from the two largest sources of revenue, plan sponsor contributions and the investment portfolio. Auditors examine internal controls that mitigate risks, including checks and balances and properly recorded participant data and contributions. Mr. Paulden said any time auditors can reach out directly to third parties to obtain corroborating evidence, this is done. In the investment arena, auditors use data from peer audits and predictive analytics to gain a good understanding of the accuracy of revenues.

Additionally, auditors look for factors mitigating management's ability to override controls that can be a pervasive risk in any organization. These include the segregation of duties, such as for journal entries as to who does what and why. Auditors make inquiries to staff as to their knowledge of any weakness in these controls, and results determine the strengths and weakness of the controls in place. If auditors can place reliance there, then this reduces the need for more auditing, Mr. Paulden explained.

The investment portfolio receives considerable attention by the auditors due to the magnitude of transactions and the inherent risk. For public securities the earnings on investments are marked to market, giving auditors a good understanding that those valuations and changes in valuations are accurate. Auditors perform a walkthrough of internal controls, high-level analytics, and confirm custodian and money managers' responses to one another and internal documents. In its disclosure standard, Brown

Armstrong describes how it values the investment portfolio. In assessing alternative investments, auditors look to audited financial statements for the managers.

Mr. Paulden emphasized that participant data and its accuracy drives everything that MCERA does. For this reason, GASB Statements No. 67 and 68 are an important part of the audit process. Auditors conduct a test of participant data and employer payroll information, including internal controls of data fed into MCERA and how that is transferred to the actuary. He emphasized the importance of how that information is maintained. The audit process includes making sure contributions are in accordance with Plan provisions and credited to the appropriate reserve accounts. High-level predictive analytics are also performed in these areas.

Mr. Paulden presented a summary report of audit deliverables, the most important being the independent auditor's report issuing an unmodified, clean opinion in accordance with Generally Accepted Accounting Principles (GAAP). He characterized the results of the financial statement audit including required reporting as a standard and clean report. A supplemental report shows an uncorrected adjustment for private equity investments to disclose the time lag of private equity valuation reporting year over year. Mr. Paulden stated there were no disagreements with management or related issues that needed to be reported. There was no noncompliance noted with internal controls that could have a material impact on the financial statements.

In conclusion, Mr. Paulden indicated that by working with the Audit Committee in conjunction with its auditing procedures, the auditors have a thorough financial statement audit process. He explained that from a technical perspective, the entire audit team has to review the financials. This includes a cold review by an auditor who has no prior view of the financials and who signs off on the financial statements. Mr. Paulden thanked Board members and staff for taking the financial audit seriously. He said by using a team approach while maintaining proper skepticism, the auditing process has resulted in a clean opinion. Mr. Paulden invited comment on the financial statement audit.

Trustee Given noted the GASB 67/68 Report was not provided and Mr. Wickman explained the GASB 67/68 Report is a separate agenda item to be approved by the Board at its meeting next week before the financial statements are presented for adoption. Mr. Paulden affirmed it is best practice for the Board to sign off on the GASB 67/68 Report before the financial statements are approved.

It was M/S Given/Block to recommend that the Board adopt the June 30, 2019 Financial Statements.

Trustee Block thanked Mr. Paulden for a productive auditing process. Mr. Wickman expressed appreciation to Mr. Paulden, Ms. Casey and their team for conducting the audit in a collaborative approach each year.

AYES: Block, Given, Gladstern
NOES: None
ABSTAIN: None
ABSENT: None

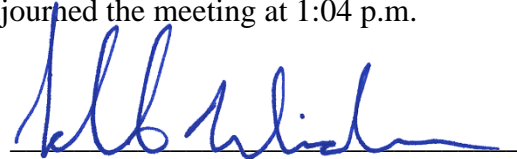
2. Future Meetings

Consider possible agenda topics for future meetings

Mr. Wickman said he is planning for Audit Committee meetings to start earlier in 2020. Staff are taking training courses to gear up for going through the exercise of producing a Comprehensive Annual Financial Report (CAFR) as a trial for the auditor to review.

There being no further business, Chair Gladstern adjourned the meeting at 1:04 p.m.



Maya Gladstern, Chairperson

Attest: Jeff Wickman
Retirement Administrator