

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

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

August 19, 2020 – 11:30 a.m.

This meeting was held via teleconference pursuant to Executive Order N-25-20, issued by Governor Newsom on March 12, 2020, Executive Order N-29-20, issued by Governor Newsom on March 17, 2020, and Executive Order N-35-20, issued by Governor Newsom on March 21, 2020.

CALL TO ORDER

Chair Gladstern called the meeting to order at 11:36 a.m.

ROLL CALL

PRESENT: Block, Given, Gladstern, Silberstein

ABSENT: None

MINUTES

It was M/S Silberstein/Block to approve the May 6, 2020 Audit Committee Meeting Minutes as submitted. The motion was approved by a vote of 4-0 as follows:

AYES: Block, Given, Gladstern, Silberstein

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. Financial Audit Review – Interim Fieldwork Phase – Rosalva Flores, Brown Armstrong Review and discuss preliminary Interim Fieldwork Phase results

Rosalva Flores, Partner with Brown Armstrong, introduced Partner Ashley Casey who attended the meeting. Ms. Flores stated the audit team recently completed the interim fieldwork phase, working remotely. During this phase auditors gain an understanding of controls, policies and procedures, and participant data. They look for changes in staff and examine any new policies and procedures. Active and retired member data is confirmed through random testing. Any differences noted by participants are reviewed and time is spent on those who did not respond. The response rate was under 50% for active members and 70% for retired members. The auditors confirm pensionable compensation with employers and confirm the accuracy of pensionable compensation computations. Auditors also look at compensation data for a small sample of terminated employees.

Ms. Flores stated the results of interim fieldwork testing were positive. Auditors inquired with key management staff and members of the Committee on areas of risk to incorporate into the audit plan, and there were no concerns in this area. Minutes of Board and Committee meetings are reviewed by the auditors who look for any contract agreements that would be relevant to the audit.

In addition to internal controls, auditors look at other information on the internet for news on the industry or association that would affect the audit. Also, the auditors perform online searches regarding departed Board members as to the reason for the departure or to identify reportable related party transactions. Travel, credit card transactions, wire transfers, and investment fees are reviewed on a 3-year rotation approach.

Trustee Silberstein said there have been stories in the newspaper about the Fund not having enough money to pay bills. Ms. Flores said the topic of funding for pension plans has been in the public domain and there will always be concerns. She pointed out that the auditors look at the Actuarial Valuation Report to evaluate funding and will be inquiring about that. The article Mr. Silberstein mentioned will be documented, and Ms. Flores will provide more information at the next meeting as to any findings.

Trustee Block inquired about additional confirmation and procedures for private real estate, private equity and derivative valuations. He observed on the last report that in MCERA's portfolio, REITs have much lower valuation than private real estate, indicating this needs further scrutiny. Ms. Flores responded that the auditors have looked at confirmations of valuations received so far and there have been a few in real estate that are still pending. The auditors have already sent a second request for pending valuations. The auditors performed additional procedures as of December 31, 2019 and look to third parties to confirm valuations. Ms. Flores stated that benchmarks are looked at and if there is a variation it will drive further inquiry to the investment manager. Once all the information is in, the audit team will be doing analytical testing.

In response to Trustee Block's observations, Mr. Wickman noted that MCERA just received AEW and UBS final June 30, 2020 valuation reports for the core real estate portfolios. Trustee Given stated these are MCERA's financial statements and the auditor is reviewing them to see they are in accordance with regulations and their audit process.

Trustee Gladstern asked how the remote audit process is working. Ms. Flores replied the auditors have cooperation from staff who provided the electronic documentation. There is more risk to not working onsite at MCERA. As a result, the audit process will include considerations recommended by the American Institute of Certified Public Accountants (AICPA) regarding additional risk when working remotely. Otherwise, the remote audit process is working very well.

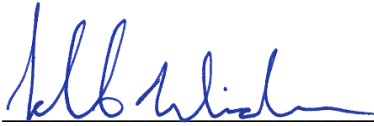
In conclusion, Ms. Flores reported in recent years auditors have expanded the information technology audit as it is a heightened risk. The audit team developed an audit program for information technology organized by risk tiers. Areas examined include controls such as data backup procedures, password security, and other security areas. This part of the audit will not be concluded until the MCERA risk assessment report is available. At the end of July 2020 auditors held their Interim Exit conference with management and have been discussing follow up items from that meeting.

2. Future Meetings

Consider possible agenda topics for future meetings

The next meeting of the Committee is on October 28, which is the second day of the Strategic Workshop.

There being no further business, Chair Gladstern adjourned the meeting at 12:08 p.m.



Jeff Wickman
Retirement Administrator

On behalf of:
Maya Gladstern, Committee Chair



Michelle Hardesty
Assistant Retirement Administrator

On behalf of:
Jeff Wickman, Retirement Administrator