

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 19, 2020 – 9:30 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.

The Board of Retirement encourages a respectful presentation of public views to the Committee. The Committee, 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 Committee meetings.

CALL TO ORDER

Chair Werby called the meeting to order at 9:35 a.m.

ROLL CALL

PRESENT: Block, Given, Klein, Murphy, Werby

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.

No members of the public provided comment.

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 June 30, 2020

La Valda Marshall, Accounting Unit Manager, presented the quarterly budget review for the quarter ending June 30, 2020. Ms. Marshall reported total expenses for the quarter were \$913,866, of which \$702,801 is Salaries and Benefits. Salaries and Benefits are lower than the budgeted amount due to a Workers' Compensation refund during the quarter and two vacant positions during the quarter. Services and Supplies totaled \$217,540 for the quarter. Document reproduction costs were over the budgeted amount due to more mailing activity than was planned. Electronic supplies exceeded the budgeted amount as a result of computers purchased to support remote work during the pandemic. In Interdepartmental Charges there was an accrual reversal for telephone charges. Chair Werby asked if the utilities owner allocation can be smoothed out. Ms. Marshall replied the expenses are cash basis paid monthly, and there have been historical timing issues for receiving billing amounts.

Total administrative expenses for the fiscal year were \$3.8 million, 82% of the budgeted amount. Of that amount, \$2.4 million is for Salaries and Benefits and \$1.1 million is for Services and Supplies expenses.

2. Non-budgeted Expenses

Consider and review non-budgeted expenses for the quarter

Total non-budgeted expenses for the quarter ending June 30, 2020 were \$43.9 million; of that amount \$40.8 million was primarily for retiree payroll and refund of contributions. The remainder is for computer, legal, actuarial and investment expenses. There was an accrual reversal for County Counsel and a reclass from one category to another in Nossaman expenses. Legal reimbursements received were \$640.

Non-budgeted expenditures for the fiscal year totaled \$171.7 million, of which \$158.4 million is primarily related to retirement payroll and refund of contributions. Total Legal, Actuary and Investment expenses were \$12.9 million. Total membership expenses were 6% higher than the prior fiscal year and computer expenses were slightly lower.

Ms. Marshall noted that retiree payroll has increased since the prior fiscal year. Chair Werby asked what the expectation is for the number of retirees and the amount attributed to the annual Cost of Living Adjustment (COLA). Mr. Wickman said most of the retiree payroll increase is attributable to the annual COLA.

3. Quarterly Checklist

Consider, review and updates on the following:

a. MCERA educational and event-related expenses

The Administrator reported educational and event-related expenses include a balance of Board member and staff expenses for conferences and educational events.

b. Continuing Trustee Education Log

The majority of Board members have achieved or made a significant progress toward the 24 hours of training every two years.

c. Other expenses per Checklist Guidelines

A list of credit card expenditures was presented for the Committee's review. A credit card has been added for the Retirement Administrator. There were camera purchases to support remote access work and refunds received for some purchases at Amazon. The MCERA domain name expired in early June and we have added a contact so that notices will be received in a timely manner.

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

See discussion above.

e. Vendor services provided to MCERA

No new vendor services during the period.

f. MCERA staffing status

There is a Senior Accounting Assistant vacancy. The vacant Assistant Accountant position will be left vacant for the time being.

g. Internal controls, compliance activities and capital calls

For the fiscal year in the private equity program, MCERA received \$19 million in distributions from Abbott and paid \$15.5 million in capital calls. Pathway distributed \$39.9 million and was paid \$27 million in capital calls. The capital call report also shows rebalancing activities for the fiscal year to date. Chair Werby asked for a comparison of capital calls and distributions over the life of the private equity program. Mr. Wickman said this data is included in the Callan quarterly investment book and he will include it in future Committee reports. Trustee Murphy agreed this would be useful information.

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

No other investigations or inquiries in the period.

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

The Administrator reported there is a cash need of \$9 million over the next three months. Staff have sent information to Callan to help identify the source of funds from the portfolio.

Mr. Wickman reported that all County General Fund Departments have been asked to develop 5% budget reduction plans and an additional 2.5% reduction plan. MCERA

expenses are not part of the County general fund and therefore MCERA has not been asked to develop reduction plans. Mr. Wickman noted however that MCERA's administrative budget is charged back to the County and other plans sponsors as an explicit rate that is added to the employer contribution rates. The Administrator stated that he believed it would be good for MCERA to go through a similar exercise to review its budget for 2021-22 to see if there have been areas of efficiency that have led to operational savings. Chair Werby asked about comparing our budget to other CERL systems and Mr. Wickman said he has that information for similar-sized systems. There are unique characteristics such as the number of tiers MCERA has, he said.

The Administrator recessed Open Session and reconvened in Closed Session at 10:08 a.m.

4. Threat to Services Provided by MCERA (Gov. Code sec. 54957(a)) (Closed Session)
Consultation with: Cyber security consultant Peter Dewar, Linea Secure

Mr. Wickman recessed Closed Session and reconvened in Open Session at 10:43 a.m.

Nothing to report on this agenda item.

5. Information Technology Security Assessment Report
Staff report on risk planning and processes for MCERA

Mr. Wickman said the Information Technology Security Assessment Report is an annual report dated as of June 30, 2019. The assessment evaluates MCERA's compliance with the policies and procedures documented in the IT Security Assessment. The report includes a description of the techniques used, the outline of the risk model, and the detailed findings and recommended controls. The Administrator said staff have already started on the 2019/20 fiscal year report. Assistant Retirement Administrator Michelle Hardesty said staff was delayed in completing the 2018/19 report for multiple reasons. She introduced Syd Fowler, Department Analyst, to review the report.

Ms. Fowler stated said this assessment is largely the same as the prior year's report. MCERA has had significant changes since the date of the report. These include CPAS moving to a cloud-hosted environment and the Linea Secure cyber assessment, which will be included in the next report. The only finding in the June 30, 2019 report was that the CPAS employer portal contained an active user login for someone who had terminated employment. Staff confirmed that the user had not accessed or attempted to access the portal since leaving employment and removed the access for the individual.

Anticipated areas of risk for the next fiscal year include results of the County Information Services Technology Department's (IST) third-party risk assessment for County networks that was initiated on June 12, 2019. Staff will be discussing those results with IST. In addition, the IST group plans to implement multiple device management which will allow staff to manage trustee and staff iPads more efficiently. Staff is expecting SAP to be fully phased out and replaced by MUNIS for the system of record for all financial and human resource functions.

In conclusion, Ms. Fowler directed attention to the checklist at the end of the report that is reviewed for each business tool to identify risk. It was through this process that the finding discussed above was discovered. There are no other findings to report.

6. Annual Audit of Financial Statements Update

Update on audit process

Mr. Wickman said the annual audit is ongoing and the Audit Committee will meet later today to discuss interim field work. There are no timing delays so the final financial statements as of June 30, 2020 will be presented for the approval by the Board by the end of the calendar year.

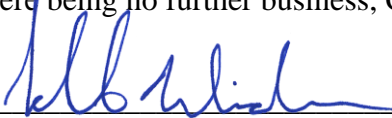
7. Future Meetings

Consider possible agenda topics for future meetings


Trustee Block commended staff for undergoing the cyber security assessments. Mr. Wickman acknowledged the cooperation of Information Technology Department personnel who have been very good partners. There will be continuing visibility to this area through ongoing discussions with the Board and this Committee.

Trustee Given asked for a report at the next meeting on how CPAS is working out after being acquired. The Administrator noted there have been multiple sales of CPAS which was recently purchased by a private equity firm Avenu. He said staff can plan a discussion of CPAS for a future Committee meeting. In terms of security CPAS has been responsive. The Administrator noted that support for our business software is a different question.

There being no further business, Chair Werby adjourned the meeting at 10:54 a.m.



Jeff Wickman
Retirement Administrator



Michelle Hardesty
Assistant Retirement Administrator

On Behalf of:
Todd Werby, Committee Chair

On Behalf of:
Jeff Wickman, Retirement Administrator