

## 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 18, 2020 – 9:00 a.m.

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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 Werby called the meeting to order at 9:00 a.m.

#### **ROLL CALL**

PRESENT: Block, Given, Klein, Murphy, Werby  
ABSENT: None

#### **MINUTES**

It was M/S Given/Murphy to approve the May 20, 2020 Finance and Risk Management Committee Meeting Minutes.

After the initial motion to approve the minutes as submitted, Trustee Block noted that on page two of the minutes administrative budget percentages of the accrued actuarial liability should have decimal points. The maker of the initial motion and second accepted this proposed amendment to the motion. The motion was approved by a vote of 5-0 as follows:

AYES: Block, Given, Klein, Murphy, Werby  
NOES: None  
ABSTAIN: None  
ABSENT: None

It was M/S Block/Given to approve the August 19, 2020 Finance and Risk Management Committee Meeting Minutes as submitted. The motion was approved by a vote of 5-0 as follows:

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 2020-21 Quarterly Review**

Consider and review expenses for quarter ending September 30, 2020

La Valda Marshall, Accounting Unit Manager, reported on administrative expenditures for the quarter ending September 30, 2020. Ms. Marshall stated the approved administrative budget for fiscal year 2020-21 is \$4.6 million. Of that amount, \$3.1 million is for Salaries and Benefits, \$1.2 million is for Services and Supplies, and \$333.8 thousand is for interdepartmental charges. Total administrative expenses for the quarter ending September 30, 2020 were \$1.0 million. Salaries and Benefits expenditures were \$670 thousand, including a \$29.8 thousand adjustment for salaries that had been charged to the Marin County General Fund in fiscal year 2018-19. Ms. Marshall noted that Salaries and Benefits are trending lower than the straight-line budgeted amount primarily due to vacancies.

Expenditures for Services and Supplies in the quarter were \$246.5 thousand, 20.5% of the budgeted amount. This category included Professional Services expenses of \$18.8 thousand, 36.2% of the budgeted amount. Ms. Marshall explained this category was over budget for the quarter because Brown Armstrong's annual contract was billed at greater than 25%. Office Expense and Supplies were \$9.3 thousand, 108% of the budgeted amount, due to the purchase of sneeze guards for the office that were not budgeted. Phone expenses were 88.7% of the budgeted amount due to cell phone and trustee data services from fiscal year 2019-20 that were not paid until this quarter. Electronic supplies are trending over the budgeted amount due to two laptops purchased for staff telework. Overall for the quarter Services and Supplies are under the straight line budget.

Depreciation expense and Interdepartmental Charges are 25% quarterly accruals.

### **2. Non-budgeted Expenses**

Consider and review non-budgeted expenses for the quarter

Total non-budgeted expenses for the quarter were \$44.6 million, of which \$40.7 million was for retiree payroll. Remaining non-budgeted expenses include computer expenses, security services, legal expenses, actuarial and investment consultants, investment manager

fees and custodial services. Total legal expenses were \$76.2 thousand and are detailed in the report. Investment manager fees were \$2.9 million. The report provides a comparison of non-budgeted expenses with totals from the prior fiscal year. Total non-budgeted expenses for the quarter are 26% of last year's actual amount.

Chair Werby asked about Insight Public Sector, Inc., which Assistant Retirement Administrator Michelle Hardesty said provides firewall protection services. Chair Werby asked for a breakdown of the original expense and the recurring amount and Ms. Hardesty will research and respond.

Trustee Block expressed appreciation for the new information in the investment fee report, which compares fees with totals from the prior fiscal year. He requested adding a column for the fee percentage times the asset value to compare fees paid in the quarter to the agreed amount and staff will follow up.

### 3. Quarterly Checklist

Consider, review and updates on the following:

#### a. MCERA educational and event-related expenses

Mr. Wickman reported that educational and event-related expenses included staff training and his attendance at the CalAPRS Administrators' Institute. MCERA received a refund for one staff course that was cancelled.

#### b. Continuing Trustee Education Log

All trustees with 24 hours of education due in 2020 have achieved their hours. Many others have enough hours to meet 2021 deadlines, and others are continuing their progress in meeting the education requirement.

#### c. Other expenses per Checklist Guidelines

Credit card items include purchases of new laptops for staff members to support telework. Payments to AT&T for cellular service were behind and the balance due was paid on the credit card. The Administrator explained that the bill had been going to the wrong location and using the credit card made it easier to catch up on that overdue payment. In the future staff will seek approval from the Board Chair to make the charge in accordance with the related policy. Other charges included purchasing desktop cameras to have the right technology for staff to participate visually in meetings.

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

See discussion above.

#### e. Vendor services provided to MCERA

No new vendor services to report.

f. MCERA staffing status

All active recruitments have been completed. There remain vacant Accounting Assistant and Benefit Technician positions.

g. Internal controls, compliance activities and capital calls

The capital call report now includes the history since inception of paid-in capital, distributions, and uncalled capital. During the quarter MCERA received more in distributions than it paid in capital calls in the private equity portfolios. In the Abbott portfolio, MCERA paid \$5.3 million in capital calls and received distributions of slightly over \$7 million. MCERA paid \$3.2 million in capital calls to Pathway and received \$5.4 million in distributions. Because Parametric had \$30 million in extra margin account cash from the overlay program, it was put into the custodial short-term investment account at State Street to meet expenses. Chair Werby said it would be helpful to put the remaining value in the private equity portfolios in the capital call report and Mr. Wickman will follow up.

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

Nothing to report.

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

Nothing to report.

4. Cyber Risk Assessment (Action)

Review and take possible action on an agreement with Linea Secure to provide support for the implementation of the findings from the cyber security risk assessments of MCERA's operations

Mr. Wickman reminded the Committee it received the Linea Secure Cybersecurity Risk Assessment report at its August 19, 2020 meeting. In the report Linea identified five high priority and 28 medium priority items. In order to move quickly to address the security items and have the appropriate resources to implement the changes, the Retirement Administrator requested that Linea Secure develop a proposal for prioritizing and implementing the 32 areas of security improvements. Included in this work would be the development of incident response plans, breach response plans, and the remaining action items from the assessment. The Administrator requested a proposal from Linea on this work which he presented. The total cost for this Linea service would be \$70,000. The Administrator explained that working with Linea Secure will allow the work to be completed in a timely manner considering the limitations of the staff resources that would be needed to support the implementation of items from the assessment.

Mr. Wickman recommended that the Committee ask the Board to authorize the Administrator to enter into an agreement with Linea to assist with the implementation of the recommended changes from the Cybersecurity Risk Assessment Report.

Trustee Given sought assurance about whether Linea Secure’s work would overlap with the County’s Information Services & Technology Department (IST), where responsibilities lie, and whether MCERA needs the work proposed by Linea. In response Mr. Wickman noted that there would not be overlap with work being done by Marin County IST. The response plans would be specific to MCERA. Ms. Hardesty added that staff are working with IST, and Linea will be working with IST and also with CPAS. Mr. Wickman said staff have provided the County with the Cybersecurity Risk Assessment Report and any work will be accomplished jointly.

Chair Werby asked how MCERA will implement cybersecurity processes. Ms. Hardesty explained that Linea Secure will make sure MCERA has a policy in place and also a process for how to determine an actual breach so that staff will not miss any items. Chair Werby asked how this would work with respect to staff. Ms. Hardesty replied MCERA needs a documented policy on breaches and the plan is to get more members on the team involved. Mr. Wickman advised there is an internal Risk Assessment Team whose job will be to work with Linea Secure to develop these processes.

Trustee Block indicated a preference for having Linea Secure complete the prioritization of issues as part of its initial engagement prior to entering into a new engagement. Mr. Wickman said that prioritizing was not part of the original agreement, but he would inquire if this could be done. Trustee Klein said her understanding is that the idea is to hire Linea Secure so that the work can be completed faster. Mr. Wickman acknowledged that the goal behind the recommendation to hire Linea Secure was to keep the work moving forward given the rapid changes that occur with cyber security. He was concerned that given current resource assignments it would take staff considerably longer to complete the work.

It was M/S Given/Block to recommend that the Board authorize the Administrator to enter into an agreement with Linea to assist with the implementation of the recommended changes from the Cybersecurity Risk Assessment Report.

AYES: Block, Given, Klein, Murphy, Werby  
NOES: None  
ABSTAIN: None  
ABSENT: None

5. Annual Audit of Financial Statements Update  
Update on audit process

Mr. Wickman reported that MCERA closed its books for the fiscal year and completed draft financial statements using March 31, 2020 private equity values which is the typical process. Once the final June 30<sup>th</sup> private equity values come in they are reviewed by the auditor to determine if the change in values is material. In prior years the change in values was not deemed material and the financial statements contained a note explaining what the adjusted values were. This year, the auditors determined that the June 30<sup>th</sup> private equity values were materially higher than the March 31<sup>st</sup> values and as a result they recommended that MCERA re-open its books and record the final values in the financial statements. Staff have undertaken this task and revised the June 30<sup>th</sup> statements with the

new values. This change necessitated that the Actuary revise the GASB 67/68 report. As a result of these activities the final draft financial statements would not be available for the Audit Committee meeting previously scheduled for November 24, 2020. Mr. Wickman reported that he would be asking the Audit Committee Chair to move the meeting out to the following week to allow staff time to receive the revised GASB 67/68 report and incorporate changes in the financial statements for review by the auditors.

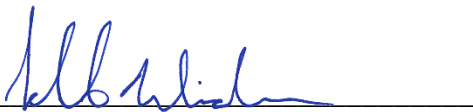
Trustee Block asked, since this issue is likely to happen year after year, if it would be best to hold the books open longer. Mr. Wickman indicated it may be best to retain the current process in order to have the financials ready well before the December Board meeting.

6. Future Meetings

Consider possible agenda topics for future meetings

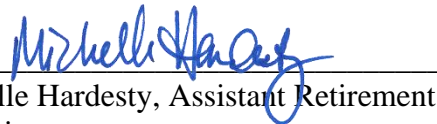
Trustee Block asked, with staff working remotely, if MCERA has support from the County on workplace issues such as Workers' Compensation. Mr. Wickman replied that management is following the directions provided by Marin County for remote work and monitoring the work to address any new or unique issues that come up, particularly related to ensure that staff have appropriate workstations for their remote work.

There being no further business, Chair Werby adjourned the meeting at 10:00 a.m.



Jeff Wickman, Retirement Administrator

On Behalf of:  
Todd Werby, Committee Chair



Michelle Hardesty, Assistant Retirement Administrator

On Behalf of:  
Jeff Wickman, Retirement Administrator