

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

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

December 1, 2020 – 9:00 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 public was able to listen to and observe the meeting on YouTube.

CALL TO ORDER

Chair Gladstern called the meeting to order at 9:02 a.m.

ROLL CALL

PRESENT: Block, Given, Gladstern, Silberstein

ABSENT: None

MINUTES

It was M/S Silberstein/Given to approve the August 19, 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 – Rosalva Flores, Brown Armstrong Review and discuss audit results

Rosalva Flores, Partner with Brown Armstrong, reviewed the scope of services and methodologies of the annual financial audit. The audit includes a review and discussion of internal controls, a Required Communication in accordance with professional standards (SAS 114), and the Agreed Upon Conditions Report designed to improve efficiency, internal controls, and/or financial reporting.

Colin Lo, CPA with Brown Armstrong, reported that in May 2020 auditors initiated the financial audit with requests for information from MCERA. Interim fieldwork followed including testing of internal controls. Significant risk areas include revenue recognition, management override of controls, investments and related earnings, and participant data. The auditors review account balances, fair value of investments and net pension liability for reasonableness and accuracy and communicate with participants to verify the accuracy of data.

By mid-August auditors completed final fieldwork to substantiate all accounts and balances and review confirmation responses. Results of fieldwork were discussed with management in a conference call in September, and draft reports and recommendations were provided in November. Mr. Lo stated during the remote audit process the use of shared files allowed for effective communication.

Ms. Flores reported Brown Armstrong will issue an unmodified, clean opinion verifying the financial statements are in accordance with Generally Accepted Accounting Principles. Other standards required the identification of any internal control issues or material weaknesses and none were found. Auditors did not identify any non-compliance issues and there were no disagreements with management. Auditors proposed a significant adjustment to the financial statements as a result of the \$37 million increase in the final value of the private equity portfolio. Ms. Flores welcomed questions or comments on the draft financial statements and thanked the entire MCERA team for their assistance with the audit.

Trustee Block asked about the process used to determine fair value for private real estate investments. In response Ms. Flores said auditors look at December 31, 2019 financial statements for the real estate managers. She said the auditors look at who is auditing the portfolio managers, how investments are valued, and whether there is consistency in these processes. In addition, auditors look at the investment consultant reports and returns over 1, 3 and 5 years, looking for any significant deviation that would require more work. Ms. Flores said over a longer period of time real estate returns compared with the benchmark and peers look reasonable. Trustee Block pointed out there were significant changes in the

real estate portfolio subsequent to December 31, 2019 and said it is good to compare with peers and the benchmark.

Trustee Block requested clarification on the recommendation to review Service Organization Controls (SOC) reports. Ms. Flores replied that her recommendation was for MCERA staff specifically to review the managers' SOC reports as to whether there were clean opinions or potential risk identified that may raise a concern, such as in the findings section on internal controls. The auditors recommend a process be created to document the review of the SOC reports and identification of issues that might need to be addressed.

2. Financial Statements (Action)– Rosalva Flores, Brown Armstrong
Review, discuss and possibly recommend that the Board adopt proposed June 30, 2020 Financial Statements

Trustee Block asked about the statement in the Notes to Financial Statements (Notes) that the Fund does not hold investments representing 5% or more of the total investment portfolio with respect to commingled funds if they are identified as entities. Ms. Flores replied the Government Accounting Standards Board (GASB) is very specific in their definition and certain exclusions, including commingled funds, would apply. Trustee Block suggested changing the word "entity" to "issuer" and gave the example of a private equity fund that may exceed 5%. Ms. Flores said limited partnerships would be subject to the 5% maximum.

Trustee Block questioned the reference in the Notes to foreign currency risk being minimal and Ms. Flores and Retirement Administrator Jeff Wickman agreed to clarify foreign currency risk. The Committee determined that settled lawsuits may remain as Contingencies. Trustee Block thanked the Brown Armstrong audit team for conducting the audit under difficult circumstances.

It was M/S Block/Silberstein to recommend that the Board adopt the June 30, 2020 Financial Statements with the edits discussed above. The motion was approved by a vote of 4-0 as follows:

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

3. Future Meetings
Consider possible agenda topics for future meetings

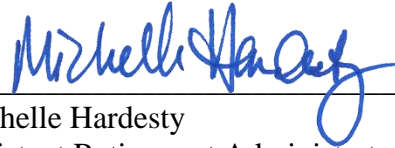
Mr. Wickman expressed appreciation to the Brown Armstrong audit team for their cooperation with MCERA's accounting team under unusual circumstances this year. He sees improvement in financial reporting processes.

There being no further business, Chair Gladstern adjourned the meeting at 9:51 a.m.



Jeff Wickman
Retirement Administrator

On behalf of:
Maya Gladstern, Committee Chair



Michelle Hardesty
Assistant Retirement Administrator

On behalf of:
Jeff Wickman, Retirement Administrator