

**MINUTES**

**AUDIT COMMITTEE  
MARIN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (MCERA)**

**One McInnis Parkway, 1st Floor  
Retirement Board Chambers  
San Rafael, CA**

**December 8, 2021 – 11:00 a.m.**

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This meeting was held via videoconference pursuant to MCERA Board of Retirement Resolution 2021/22-01, which invoked Government Code section 54953(e) for all MCERA Board and standing committee meetings through January 1, 2022. The public was able to listen to and observe the meeting and provide comment through Zoom.

**CALL TO ORDER**

Chair Gladstern called the meeting to order at 11:16 a.m.

**ROLL CALL**

PRESENT: Block, Given, Gladstern, Silberstein

ABSENT: None

**MINUTES**

It was M/S Silberstein/Block to approve the August 4, 2021 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 Board regarding any agenda item when the Board considers the item.

Open time for public expression, from three to five minutes per speaker, on items not on the Board Agenda. While members of the public are welcome to address the Board during this time on matters within the Board'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 Board concerning a non-agenda item. Members of the Board may (1) briefly respond to statements made or questions posed by persons addressing the Board, (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, introduced Engagement Manager Colin Lo. Ms. Flores stated the annual financial audit was conducted in accordance with auditing standards generally accepted in the United States and the Government Auditing Standards (GAS). The Scope of Services includes the Report on Internal Control, Required Communication, and Agreed Upon Conditions Report. In July, the interim fieldwork phase included testing of internal controls and walkthroughs of key accounting areas. Final fieldwork to substantiate all accounts and balances and review confirmation responses concluded in September. On September 24 auditors held a wrap-up conference call with management to discuss results of fieldwork. After reviewing financial statements and Government Accounting Standards Board (GASB) 67/68 reports in November, the auditors drafted reports and recommendations.

Ms. Flores explained that audit areas of focus included significant risk areas, such as revenue recognition and management override of controls. Revenue recognition involves controls over contribution amounts as part of participant data and confirmations from third parties. Management override of controls includes review of controls over journal entries including segregation of duties, benefit payments, employer and employee contributions, and investments and related earnings. For investment accounts, there is a three-way reconciliation of accounts with the custodian, investment managers, and the investment consultant. The auditors obtain audited financial statements of investment managers, looking for reasonableness and adequacy of controls. In addition, auditors make sure these financials have clean opinions from independent third parties and conform to GASB 72 disclosure standards. For participant data, auditors obtain and perform a walkthrough and testing of active and retired member data to corroborate it is properly reflected in the system. Actuarial assumptions are reviewed, and auditors perform high-level analytics and testing on controls for benefit payments.

Ms. Flores reported Brown Armstrong is issuing a clean opinion of MCERA's June 30, 2021 Financial Statements, as reflected in the Report on Financial Statements. In the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, no noncompliance was noted and there were no material weaknesses or significant deficiencies noted. In the Agreed Upon Conditions Report there were two recommendations, one being a carryover from the prior year regarding the internal review of Service Organization Controls (SOC) reports that management plans to implement in the next operating cycle. The second related to a pending payroll correction for one employer. Trustee Gladstern asked about the discrepancy and Ms. Flores replied it had to do with a small difference in reported gross salary over four pay periods that could impact the member at retirement. Mr. Wickman said the member is not eligible to retire so the discrepancy did not affect any benefit amounts. Staff is working with the employer to identify any adjustment that needs to be made.

Regarding any significant audit adjustments or any uncorrected misstatements, Ms. Flores noted one corrected adjustment to the financial statements of \$53 million was made for final private equity valuations due to the normal reporting lag in that asset class.

Trustee Block asked if there is a general movement in the profession for disbursement controls requiring as best practice the audio recorded or video approval for significant disbursements. Ms. Flores replied that the most important factor is to have good information technology controls surrounding electronic transactions. She said in the industry there has been discussion about risks for electronic transactions. Each year to assess controls auditors get a general understanding of key accounting areas, looking for good segregation of duties and controls due to remote work. Ms. Flores stated there are no concerns regarding MCERA's accounting controls.

2. Financial Statements (Action) – Rosalva Flores, Brown Armstrong

Review, discuss and possibly recommend that the Board adopt proposed June 30, 2021 Financial Statements

Ms. Flores said financial statements go through a rigorous proofing process at Brown Armstrong. Ms. Flores said overall it was a good draft of the financials received from MCERA.

It was M/S Silberstein/Block to recommend that the Board adopt June 30, 2021 Financial Statements as submitted.

Trustee Given noted the financial statements reflect a Net Pension Asset, rather than a Net Pension Liability as in the past. Mr. Wickman said the actuary reached out to the Governmental Accounting Standards Board (GASB) regarding how to reflect this year's positive return in the GASB reports. Lacking any specific guidance, the Actuary determined that the amount should be reflected as a Net Pension Asset.

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

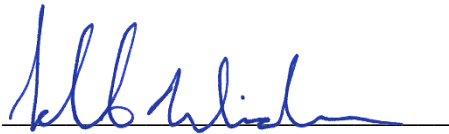
Mr. Wickman thanked Ms. Flores, Mr. Lo, and the Brown Armstrong audit team for their patience and cooperation in conducting the audit, and Accounting Unit Manager La Valda Marshall and her team for their work in completing the financial statements and the audit. Chair Gladstern asked if all systems have a lag in private equity values, or other factors that slow financial reporting down. In response, Mr. Wickman said the private equity lag is similar for other public pension systems. The challenge for MCERA, he said, is the large number of benefit tiers which complicates the work required by the actuary. Mr. Schmidt said he has discussed with Mr. Wickman potential ways to simplify calculations of employer contribution rates in the future.

3. Future Meetings

Consider possible agenda topics for future meetings

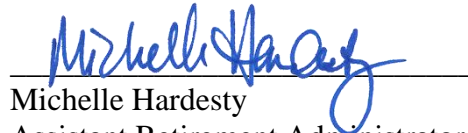
Mr. Wickman said the schedule for Audit Committee meetings is expected to be earlier next year.

There being no further business, Chair Gladstern adjourned the meeting at 11:51 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