

Mendocino County Board of Retirement
Audit and Budget Committee Meeting Minutes
April 21, 2014

10:02 a.m.

Participants: Lloyd Weer, Committee Chair, Randy Goodman, Tom Watson, Interim Retirement Administrator, and Judy Zeller, Administrative Assistant. Ted Stephens, Crystal Ekanayake and Dan Matzinger, Gallina LLP, participated by teleconference. Absent: Bob Mirata.

Mr. Stephens confirmed that he was participating by conference call from his office located at 1101 College Ave., Ste. 210, Santa Rosa, CA 95404, the agenda was posted publicly at this location prior to the meeting, and the public was welcome to participate.

Public Comment: None

1) Approval of the March 11, 2014 Committee meeting minutes.

Mr. Stephens motioned to approve the March 11, 2014 minutes. Mr. Goodman seconded the motion and the minutes were approved unanimously.

2) Discussion and Recommendation regarding external auditing services.

Mr. Watson referenced his report on External Auditing Services Commencing July 1, 2014. He stated that the existing contract with Gallina LLP expires on June 30, 2014. Therefore, MCERA needs to have a new contract in place beginning July 1, 2014. Gallina LLP has proposed a one year extension of its contract for a cost of \$39,500 or a three year extension with annual costs of \$35,250, \$37,000, and \$38,500.

The Audit and Budget Committee will recommend to the Board of Retirement for either a one year or three year extension of the contract with Gallina LLP. Mr. Goodman suggested a three year extension due to the fact that there are few independent Auditors with 37 Act experience that are familiar with the new Government Accounting Standards Board (GASB) requirements. He recommended a Request for Proposal (RFP) for auditing services in three years. Ms. Ekanayake explained Gallina's billing for services over the past three years and stated that additional charges over the annual contract amount were for services outside of the scope of work including other work, extra meeting attendance, multiple conference calls, and multiple revisions of financial statements. She suggested including the number of meetings and revisions to financial statements in the contract.

TELECONFERENCE LOCATION: Office of Ted Stephens, 1101 College Avenue, Suite 210, Santa Rosa, CA 95404
Phone: 707-545-8646 Fax: 707-544-8020

MEETING LOCATION: Retirement Association Conference Room , 625-B Kings Court, Ukiah, CA 95482
Phone: 707-463-4328 Fax: 707-467-6472

RETIREMENT ASSOCIATION WEBSITE: www.co.mendocino.ca.us/retirement

She added that coordination of implementation of GASB 67 and 68 is included in the estimates. Gallina expects to participate in meetings and write disclosures. Segal would provide the numerical information. There should not be any additional charges due to GASB 67.

Gallina previously offered MCERA a discount rate of \$15,000 per year and cannot offer the same discount on services at this time, although we are still discounting the standard rates to come up with this fee schedule and we did not charge extra for the major conversion issues experienced in the first year. Mr. Goodman commented that other independent auditing firms charge a lot more than Gallina. An increase in public watch on the retirement system and more reporting requirements has caused our costs to go up.

Ms. Ekanayake agreed that evaluating fees is part of your fiduciary responsibility. She reminded the committee that prior auditing work did not pay attention to detail and we could not rely on prior working papers. An auditor must be able to keep up with new requirements and must work well with other service providers. Gallina's fee schedule is the lowest of MCERA's service providers. Mr. Watson commented that MCERA has a lot of moving parts right now and will need to transition with GASB 67 and 68. An RFP may not result in less expensive services.

Direction: Mr. Goodman motioned to recommend a three year extension with Gallina LLP for auditing services to the Board and to direct staff to work with Gallina LLP on including language in the agreement regarding number of reviews and revisions, and to specify that there will be no additional cost for GASB 67 and 68 implementation. Mr. Weer Seconded the motion and it was approved unanimously.

3) Discussion and Recommendation regarding the Proposed Fiscal Year 2014/15 Budget.

Mr. Watson referenced his Fiscal Year Budget Development Narrative and Recommendations. He explained the steps he took to develop the budget. The entire projected administrative expenditures for FY 2013-2014 of \$818,011 are \$137,206 less than the budgeted amount of \$955,217 and \$259,123 less than the policy cap of \$1,077,134 which is 0.21% of the Actuarial Accrued Liability of \$512,921,000. The total projected administrative expenditures are 76% of the policy cap on budgeted expenditures.

In development of the budget for FY 2014-2015, it was assumed that current staff would remain and the two vacancies would be filled as of July 1. This could potentially increase office expense, staff training costs, and in county travel expense. Other changes are potential increases in utilities (thus imputed rent) and other matters as noted. The same Actuarial Accrued Liabilities figure of \$512,921,000 from the June 30, 2013 Actuarial Valuation was used to develop the cap.

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In light of the assumption of filling both current staffing vacancies and associated increased expenses, potential for increased Board and Committee meetings, and the extraordinary actuarial services needed for the triennial experience study and GASB 67 and 68, Mr. Watson recommended the developed total budget of \$1,931,000 with an administrative budget of \$989,092 which is 92% of the MCERA cap of \$1,077,134.

The committee discussed the 2014-2015 budget worksheet. They asked staff to review the Retirement Administrator position cost again and whether that position get the 5% confidential premium pay, bring discussion regarding Board Education and spending to the board, and asked that Fiduciary Insurance options be researched in the future. They discussed the cost of services provided by Callan Associates and Segal Consulting. The Callan contract will expire in October 2014 and will need to be discussed further. The Segal Consulting contract, which was just renewed for three years, includes a triennial experience study and new GASB work. Mr. Watson explained that the quarterly retainer provides some services before an hourly rate gets charged. The committee agreed to decrease the proposed budget for office expense, legal expense, travel in county, stipend payments, board education and conferences, staff training and education, total disability due diligence, and total cost for Segal Consulting.

Direction: Staff will review the Retirement Administrator 5% confidential pay for accuracy and will adjust the budget per committee recommendations. The revised proposed budget will be sent to committee members for review before submission to the Board in May.

4) Schedule the next Audit & Budget Committee meeting.

The next Audit and Budget Committee meeting is scheduled tentatively for June 26, 2014 to discuss the new GASB requirements with Segal Consulting and Gallina LLP. The time and length of the meeting will be announced once the date is confirmed.

Meeting Adjourned (11:35 a.m.)

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