

Mendocino County Board of Retirement
Audit and Budget Committee Meeting Minutes
February 5, 2014

10:00 a.m.

Participants: Lloyd Weer, Committee Chair, Randy Goodman, Ted Stephens, Rich White, Retirement Administrator, and Judy Zeller, Administrative Assistant. 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. Jeff Berk, Legal Counsel, and Crystal Ekanayake and Dan Matzinger of Gallina LLP also participated by teleconference.

Public Comment: None

1) Approval of the January 8, 2014 Committee meeting minutes.

Mr. Goodman motioned to approve the January 8, 2014 minutes. Mr. Weer seconded the motion and the minutes were approved unanimously.

2) Discussion and Recommendation regarding the Schedule of Employer Contributions.

Presenters: Mr. White referenced the Schedule of Employer Contributions included in the External Audit report for Fiscal Year 2012/13. He asked the committee to recommend acceptance of this schedule to the Board of Retirement and to incorporate new language regarding this schedule in the Management Discussion and Analysis (M D & A) of the Audit Report. He provided a recap of discussions that the Committee and the Board has had regarding the schedule and that it shows the percentage of employer contributions made at various times during the prior actuary's tenure with MCERA were not one hundred percent.

The County Employees Retirement Law (CERL) requires plan sponsors to contribute one hundred percent of annual contributions based on actual payroll for that year. After much discussion we believe our employers have made the required annual contributions. It is believed that past valuation reports may have used projected annual payroll instead of actual payroll amounts. The law requires that contributions be made on actual payroll, not projected, and due to payroll changes each year, contributions must be applied to the actual payroll.

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

LOCATION: Retirement Association Conference Room at 625-B Kings Court, Ukiah, CA 95482
Phone: 707-463-4328 Fax: 707-467-6472
Retirement Association Website: www.co.mendocino.ca.us/retirement

The Schedule of Employer Contributions report for fiscal year ending June 30, 2010 indicates that employers contributed 91% of required contributions. The Actuary estimated contributions in the amount of \$9,571,000. The actual contributions paid by plan sponsors were \$8,234,253. The Actuary reported this as 91percent, but it may have been 86 percent. They assumed less than 100 percent contributed because they used estimated payroll instead of actual. In fiscal year ending June 30, 2009 the Actuary estimated \$6,046,000 in employer contributions. Actual employer contributions made were \$8,561,368, which does equal the reported 141 percent.

This schedule cannot be changed and is a required chart in our audited financial statements. Going forward our Actuary has only used actual employee contributions. It is recommended by our professional consultants that we add language to the M D & A in our audit of financial statements to better explain the schedule. Should the Committee or Board desire financial analysis of this issue, it would be very extensive and expensive work, which is not recommended. Contributions are trued up annually during the audit process and the numbers in question will drop off current reporting. We have no reason to believe that the sponsors have not done what they are required to do. Mr. Weer added that his own research indicated that at the end of each payroll a journal entry was posted and actual contributions were placed in the trust immediately.

Mr. Stephens expressed his feelings and stated that he could not support acceptance of the Schedule of Employer Contributions and the proposed M D & A language. He did not want to hire expensive outside help, but added that Supervisor McCowen had also brought up this issue and the need to verify our numbers. Mr. White stated that we are attempting to explain this issue as much as possible with new language so that we may move forward with assurance and diligence.

Mr. Goodman asked Ms. Ekanayake if the audit process years ago confirmed or trued up contributions. Ms. Ekanayake replied that the Auditor is not required to audit the Actuary's work. We review the underlying data used in a valuation to make sure the data is correct. The audit also tests contribution rates. Sixty participants were tested in Gallina's first year. Now less are tested and they have not found any exceptions on what is being contributed. This should have been done in years past as it would be difficult to audit if the rates were not tested. If we find exceptions, an Auditor must look for a legal opinion, agreement, or something else to back up any discrepancy.

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Mr. Mirata arrived at 11:00 a.m.

The Committee discussed the proposed new language to be added to page 8 of the audit report which will refer to the schedule of employer contributions. It was agreed that no footnote will be added to page 26.

Mr. Weer motioned to recommend acceptance of the Schedule of Employer Contributions and to take the recommended M D and A language to the Board of Retirement for approval. Mr. Mirata seconded the motion and it was approved 3-1, Mr. Stephens was opposed.

3) Discussion and Recommendation regarding the External Audit report for Fiscal Year 2012/13.

Presenters: Mr. White began discussion regarding the revised draft of the External Audit report for Fiscal Year 2012/13 prepared by Gallina LLP. This draft report dated 1/27/14 includes the changes recommended by the Committee at their last meeting on January 8, 2014.

The M D and A will be modified based on the last committee item. Mr. White mentioned that the last paragraph on page 8 referring to aggregate employee rates was revised in our June 30, 2013 Valuation due to experience numbers in our Public Employee Pension Reform Act (PEPRA) Tiers. The second to last paragraph on page 12 will be changed from three tiers to five to include the PEPRA Tiers.

Mr. Stephens motioned to submit the amended draft audit report dated 1/27/2014 to the Board of Retirement for approval. Mr. Mirata seconded the motion and the motion was approved unanimously. Gallina LLP will wait for Board approval to apply the new M D and A language.

4) Discussion and Recommendation regarding the Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2013.

Presenters: Mr. Goodman referenced the draft Comprehensive Annual Financial Report (CAFR) for Fiscal Year ended June 30, 2013. He went through the report page by page and recommended some changes. The committee members all agreed on the changes to be made. Mr. White will make all of the recommended changes and will send out a revised draft to the committee for review prior to the Board meeting.

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Mr. Mirata motioned to submit the CAFR with the recommended changes to the Board at its February meeting for approval. Mr. Stephens seconded the motion and it was approved unanimously.

5) Schedule the next Audit & Budget Committee meeting.

Mr. White recommended that the next committee meeting be scheduled in April because the fiscal year budget must go to the Board for approval in May.

The next Audit and Budget Committee meeting will be scheduled on Monday April 21, 2014 at 10:00 a.m.

Meeting Adjourned (11:50 a.m.)

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