

Mendocino County Board of Retirement
Audit and Budget Committee Meeting Minutes
July 17, 2013

1:00 p.m.

Participants: Lloyd Weer, Committee Chair, Randy Goodman, Bob Mirata, Ted Stephens, Crystal Ekanayake, Gallina LLP, Scott German, Fechter and Company, Rich White, Retirement Administrator, and Judy Zeller.

Public Comment: None

1) Approval of the April 30, 2013 Committee meeting minutes.

Mr. Goodman motioned to approve the April 30, 2013 minutes. Mr. Mirata seconded the motion and the minutes were approved unanimously.

2) Discussion regarding the External Audit for Fiscal Year 2012/13.

Presenters: Mr. White introduced Mr. German, Fechter and Company, and Ms Ekanayake, Gallina LLP, to the committee and began discussion regarding the External Audit for Fiscal Year 2012/13.

Ms. Ekanayake referenced an auditor communications planning resource and our current letter of engagement which was distributed to the committee. She addressed areas of concern or risk to incorporate in the audit plan for this year. Mr. Stephens asked if an audit of actuarial figures would be done. Ms. Ekanayake mentioned that materiality is set at a very high level and an immaterial difference may be reported, but most likely would not be a concern. A new calculation to provide the amount of materiality would be done and approximately .03% to .04% of the total fund would be considered a material difference. Mr. Stephens stated that the Comprehensive Annual Financial Report (CAFR), Audit Report, and Actuarial Report figures should be similar without large discrepancy. He asked that Gallina also review figures provided by the County. Ms. Ekanayake stated that Gallina's job is to perform the independent audit of financial statements, not to make sure that the other service providers are doing their job.

Ms. Ekanayake stated that Gallina believes the correct figures to use in the audit are in the custodial records. She mentioned that some investment amounts might not be included in the audit report because they were not included in the information provided by the custodian, but these amounts may be included in the Callan report due to the timing of purchase or sale of investments.

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

Mr. Stephens asked about new Governmental Accounting Standards Board (GASB) reporting effective for fiscal years beginning after June 15, 2014 and whether Ms. Ekanayake had any comment so we can plan ahead. She replied that the Sensitivity Analysis is the biggest concern and to start planning now to make the most accurate disclosure. She suggested the start of a pro forma of what disclosures will look like in order to plan on the impact. If larger plans are adopting disclosures in the next year, then take a look at what they do and pro forma for our disclosures for the following year.

Mr. Goodman asked about timing and always getting the audit complete at the last minute. Ms. Ekanayake replied that it depends on when Segal gets their report to the Board and when the Board adopts the report. Mr. White added that the CAFR should be submitted no later than December 31. This is why timing of reports was brought to the Retirement Board's agenda and it is still a relevant discussion to have. If the Board had adopted the proposed policy change the same actuarial valuation information would be used for two audits. The data would be current for one audit and one year old for the next audit.

Mr. Goodman mentioned the State Controller's report is due on December 31 and we are always filing for extensions. Ms. Ekanayake stated that it is very common to do the audit either by quick reporting with year old actuary information or late reporting using the most current actuary information. Mr. Stephens asked Mr. White to check with Segal on getting their report completed in October. Ms. Ekanayake recalled a conversation with Segal and that they may be able to report to us very early if we can do interim work to close the books faster, perform field work faster, and get numbers to Segal much earlier. We would need final financial statements and census information as soon as possible. Typically, Gallina gets a report out three weeks after field work is complete for review and then the information could be sent off to Segal. If the audit report is sent for review the week of Aug 12, 2013 the Committee could review and meet to discuss in September following the Board of Retirement meeting.

Ms. Ekanayake inquired about the status of the Voluntary Correction Program (VCP). Mr. White said that Orange County should be close to completion. Recommendations will be made for all 37 Act Retirement Systems and individual system changes will have to go to the legislature. We do know that a complete rewrite of the 37 Act will not be done. The State Association of County Retirement Systems (SACRS) has a placeholder bill in the legislature in the event any of this is ready to go during this session.

Ms. Ekanayake mentioned that Gallina is in the 3rd and final year of the Request for Proposal (RFP). The audit this year will help provide an estimate for services for future years. Gallina has never billed for travel, but will bill for services performed outside of the letter of engagement. Both the Retirement Administrator and the Committee Chair will sign the engagement letter.

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Mr. German mentioned that the last appraisal for Kings Court was done in 2007. He asked for establishment of a process for providing value to disclose in financial statements. There is no standard that requires appraisal for this type of asset for a retirement plan. The committee agreed to keep this item at a committee level and report to the full board in September. Committee members discussed the fact that commercial property has not come up in value and would a Commercial Broker provide a Broker's Price Opinion (BPO)? It was agreed that Mr. Mirata would contact a broker for a BPO. A value of \$864,000 will be used for Kings Court unless the BPO is substantially higher or lower. If that is the case, the value should be adjusted accordingly.

3) Schedule the next Audit & Budget Committee meeting.

The next Budget and Audit Committee meeting will be scheduled September 18, 2013 following the Board of Retirement meeting.

MEETING ADJOURNED (2:27 P.M.)

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