

Mendocino County Board of Retirement
Audit and Budget Committee Meeting Minutes
September 18, 2013

1:03 p.m.

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

Public Comment: None

1) Approval of the July 17, 2013 Committee meeting minutes.

Mr. Mirata motioned to approve the July 17, 2013 minutes. Mr. Goodman seconded the motion and the minutes were approved unanimously.

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

Presenters: Mr. White began discussion regarding the Draft External Audit report for Fiscal Year 2012/13.

Mr. Stephens asked if anyone had evaluated the figures on page 11 of the report. Mr. White suggested that review of the August meeting investment report may help evaluate the figures. Mr. Stephens mentioned that he was uncomfortable with the reference to Retiree Health benefits. He felt much has changed over the years and did not think we needed to include this information in the audit report again. If someone was reading the document they may think retire health insurance is still offered. Mr. Weer reviewed the last audit report prepared by Gallina and found that it included the same language. It was determined at that time that we needed to complete our Voluntary Correction Process and it would be appropriate to continue to include reference to health benefits until next year.

Mr. Stephens asked about custodial credit risk on page 14 and if the securities held in the County Treasury in the name of MCERA are in a separate account. He added that MCERA does not have a custodial bank and we need to discuss this with Gallina.

Crystal Ekanayake, Daniel Matzinger, and Scott German joined the meeting by conference call at 1:30 p.m.

Ms. Ekanayake addressed the committee and stated that Gallina has done all testing and has completed the draft report, highlighting items in yellow that still need to be acquired or

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updated. Most footnotes have been updated as well, except for the end of the document where most items are highlighted and still incomplete. Mr. German added that he will review the numbers next week while he is in Ukiah before the final draft is prepared.

Ms. Ekanayake referenced page 10 of the report and stated that investment figures were taken from the confirmation letters that they received from our investment firms. Mr. German added that the statements did reconcile with Callan Associates with a few exceptions. Callan does not consider payables, receivables, and accruals. Mr. German added that he will reconcile between the two so you can see where this difference comes from. Mr. Stephens asked if we should be concerned about investments reconciling, what about the difference, is it close enough? Mr. Goodman mentioned that Callan picks up a dividend on a REIT that is paid on the 1st of the month and their report includes it in the previous month.

Ms. Ekanayake stated that we want to include any extra information to allow a reader to reconcile the figures on their own without comparing reports. There is no reason not to provide as much additional information as we can. Mr. Stephens agreed, stating that he felt a certain obligation to verify. If the figures differ, it looks like we are hiding something. Our standard should be if we know it, we should disclose it.

The committee discussed real estate and noted that Private and Patriot fund are included in Mutual Funds. We want to make sure our real estate is accounted for correctly. Mr. Weer mentioned that there may be a cash reconciling error depending on when you get that balance. You could expect movement for at least 60 days.

Segal's draft report should be due in October and Ms. Ekanayake mentioned that the draft audit report will be provided to Segal when we all agree that it is approved. Segal will use the information on pages 10 and 11 and that is all they receive. Mr. German will review the draft next week and once his review is done we will send to Segal. Mr. Weer asked that a copy of the new footnote for page 10 be sent to the committee and that corrections be made to page 11 to reflect appreciation, income, and increase. Mr. Stephens asked to amend the 3rd to the last sentence, note 1, page 13, from has to had. Then he brought up the issue of custodial bank, page 14, asking if this was standard language held over from the previous audit report and mentioned that we do not have a custodial bank. The county holds approximately \$2 million in cash and our investments are held by each investment fund. Mr. German suggested that the statement should be saying that the County has investments and these investments expose our securities to risk. Ms. Ekanayake will amend the last sentence in the first paragraph regarding custodial credit risk. Mr. Stephens asked to add a market risk explanation to page 14 and Ms. Ekanayake said she would add some standard language. He also asked to add the plan name, Retiree Health Plan, to note 2, page 16.

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The committee agreed that mutual fund real estate on page 18 will be verified with Callan, page 19, note 4, will be updated to reflect the value of Kings Court and new language will be added, and the 3rd paragraph of note 7, page 25, will be removed.

Mr. Stephens asked about page 24 and whether we should note the Buck Consultants settlement funds? Ms. Ekanayake replied that we could add a footnote and explain that reserve, but it does not meet the materiality threshold. Instead we can explain why it is not available for payment of benefits. MCERA will provide the reserve figure to update the total.

3) Schedule the next Audit & Budget Committee meeting.

The next Audit and Budget Committee meeting will be scheduled October 16, 2013 following the Board of Retirement meeting.

Meeting Adjourned (2:55 p.m.)

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