

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

**BOARD OF RETIREMENT
2223 WELLINGTON AVENUE, SUITE 100
SANTA ANA, CA 92701**

AUDIT COMMITTEE MEETING

June 9, 2017

1:00 p.m.

MINUTES

The Chair called the meeting to order at 1:05 p.m. and read the opening statement for the record. Attendance was as follows:

Present: Charles Packard, Chair; Frank Eley, Vice Chair; Shari Freidenrich

Absent: Eric Gilbert

Staff: Brenda Shott, Assistant CEO; Internal Operations; Suzanne Jenike, Assistant CEO, External Operations; Gina Ratto, General Counsel; David James, Director of Internal Audit; Mark Adviento, Internal Auditor; Stina Walander-Sarkin, Investment Analyst; Shanta Chary, Director of Investment Operations; Anthony Beltran, Audio/Visual Technician; Bill Singleton, Recording Secretary

At staff's request, Item C was the first item addressed.

Ms. Freidenrich arrived at 1:12 p.m.

A. 2016 FINANCIAL STATEMENTS AUDIT

Presentation by Linda Hurley, Macias, Gini & O'Connell

Recommendations:

1. Approve OCERS' Audited Financial Statements for the Year Ended December 31, 2016.
2. Direct staff to finalize OCERS' 2016 Comprehensive Annual Financial Report (CAFR) and present it to the Board of Retirement at their regularly scheduled Board meeting on June 12, 2017.
3. Approve the Governmental Accounting Standards Board (GASB) Statement 67 Actuarial Valuation as of December 31, 2016.
4. Receive and file Macias, Gini & O'Connell LLP's (MGO) "OCERS' Report to the Audit Committee for the Year Ended December 31, 2016" and their "Independent Auditor's 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.*"

Ms. Shott gave an overview of the 2016 CAFR. She thanked OCERS Finance staff for their great collaborative work on the 2016 CAFR. Ms. Shott reported there were no material changes since the preliminary financial statements were presented in March.

Ms. Linda Hurley from MGO gave an overview of the Independent Auditor's Report. MGO was pleased to report no adjustments or differences to impact their opinion. MGO issued an unmodified (clean) opinion on the Financial Statements. MGO thanked management for their cooperation and great job on the CAFR.

Ms. Freidenrich requested that staff should make the Audit Committee aware of what the Committee's responsibilities are when looking at the financial statements.

Following discussion, a **motion** was made by Mr. Eley, **seconded** by Ms. Freidenrich to approve OCERS' Audited Financial Statements for the Year Ended December 31, 2016; direct staff to finalize OCERS' 2016 Comprehensive Annual Financial Report (CAFR) and present it to the Board of Retirement at their regularly scheduled Board meeting on June 12, 2017; approve the Governmental Accounting Standards Board (GASB) Statement 67 Actuarial Valuation as of December 31, 2016; and receive and file Macias, Gini & O'Connell LLP's (MGO) "OCERS' Report to the Audit Committee for the Year Ended December 31, 2016" and their "Independent Auditor's 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*."

The **motion passed unanimously**.

B. GASB 68 VALUATION AND AUDIT REPORT

Presentation by Brenda Shott, Assistant CEO

Recommendations:

1. Approve OCERS' audited Schedule of Allocated Pension Amounts by Employer as of and for the Year Ended December 31, 2016.
2. Approve the Governmental Accounting Standards Board (GASB) Statement 68 Actuarial Valuation as of December 31, 2016 for distribution to employers.

Ms. Shott introduced the GASB 68 Valuation and Audit Report. She explained the differences between the net pension liability versus the unfunded actuarial accrued liability. Ms. Shott presented the Schedule of Allocated Pension Amounts by Employer as of and for the Year Ended December 31, 2016. The schedule and related notes were audited by OCERS' independent auditor, Macias Gini & O'Connell LLP (MGO). Once the audit report and GASB 68 valuation are approved by the Audit Committee and Board of Retirement, it will be made available to participating employers.

Following discussion, a **motion** was made by Mr. Eley, **seconded** by Ms. Freidenrich to approve OCERS' audited Schedule of Allocated Pension Amounts by Employer as of and for the Year Ended December 31, 2016 and approve the Governmental Accounting Standards Board (GASB) Statement 68 Actuarial Valuation as of December 31, 2016 for distribution to employers.

The **motion passed unanimously**.

Break – 3:24 p.m.

Reconvened – 3:35 p.m.

Item 1 was taken out of order due to the RFP finalists' flight schedules.

C. DIRECTIVE TO REVIEW OCERS INVESTMENT FEE REPORT

Presentation by Steve Delaney, CEO

Recommendation: Receive and file.

Mr. Delaney began by reiterating what had been previously discussed during the March 20th Regular Board meeting and continued to the March 29th Audit Committee meeting, as well as the May 15th Regular Board meeting. Mr. Delaney was joined by members of OCERS' Finance, Investment and Legal department to provide additional background on the current status of fee reporting at OCERS as well as creating a project timeline to produce the Annual Investment Fee Report.

Ms. Chary gave an overview of how the fee report was created and the objective of the report. Further, she emphasized how the various fees are allocated.

Ms. Walander-Sarkin provided an overview of how the fee report is compiled each year. She stated that a spreadsheet is sent out to all managers and they provide the numbers to OCERS. Surveys are received by the end of April and the material is presented in August. Ms. Walander-Sarkin stated that the fee report will be more detailed than what is legally required.

Ms. Ratto gave an overview of Government Code section 7514.7, which became effective January 1, 2017, and mandates that OCERS require its alternative investment managers to disclose certain listed fees and to annually report this information publicly.

Ms. Shott gave an overview of how other systems outside of California are reporting their investment fees.

Following discussion, a **motion** was made by Mr. Eley, **seconded** by Ms. Freidenrich to receive and file.

The **motion passed unanimously.**

D. REVIEW OF OCERS' INVESTMENT WIRE TRANSFER PROCESS

Presentation by David James, Director of Internal Audit

Recommendation: Receive and file.

Mr. James explained that at the direction of the Audit Committee, Internal Audit completed a review of OCERS' investment wire transfer process. Based on the Internal Audit review, it was concluded that OCERS' current processes for approving investment wire transfers, for performing due diligence prior to an investment and ongoing due diligence after an investment, provide adequate internal controls to prevent fraud and monitor investments. Internal Audit does not recommend additional changes to these processes or staffing for these processes at this time.

Mr. Packard asked for clarification on Investment staff approving a fund and then performing a wire transfer.

Following discussion, a **motion** was made by Ms. Freidenrich, **seconded** by Mr. Eley to receive and file.

E. NEW YORK STATE COMMON RETIREMENT FUND'S SCANDAL AND OCERS' POLICIES

Presentation by David James, Director of Internal Audit

Recommendation: Receive and file.

Mr. James gave an overview of the New York State Common Retirement fund's scandal. He explained the controls that were not in place in that fund and how OCERS compares to their fund. He also explained the policies that OCERS has in place addressing the risk of investment fraud and inappropriate gifts. Such policies include *OCERS Staff Code of Ethics and Standards of Professional Conduct Policy, OCERS' Procurement and Contracting Policy, Due Diligence Policy, OCERS' Annual Disclosure Policy, Acceptance and Reporting of Gifts Policy, Travel Policy, Investment Placement Agent Policy, and OCERS Ethics, Compliance, and Fraud Hotline* in which suspected illegal acts can be anonymously reported for investigation.

Following discussion, a **motion** was made by Ms. Freidenrich, **seconded** by Mr. Eley to receive and file.

The **motion passed unanimously.**

F. HOTLINE UPDATE

Presentation by David James, Director of Internal Audit

Recommendation: Receive and file.

The Committee requested this item be moved to the next Audit Committee meeting.

G. AUDIT COMMITTEE INQUIRY ON ADMINISTRATIVE TIME IN INTERNAL AUDIT

Presentation by David James, Director of Internal Audit

Recommendation: Receive and file.

The Committee requested this item be moved to the next Audit Committee meeting.

H. STATUS OF INTERNAL AUDITS AND AUDIT PROJECTS

Presentation by David James, Director of Internal Audit

Recommendation: Receive and file.

The Committee requested this item be moved to the next Audit Committee meeting.

I. ACTUARIAL AUDIT RFP FINALISTS' PRESENTATIONS

Presentation by Daniel Wade and Mark Olleman of Milliman

Presentation by Graham Schmidt and Anne Harper of Cheiron

Recommendation: Take appropriate action.

Mr. James informed the Committee that OCERS completed an evaluation of the six submissions for the actuarial audit RFP. The evaluation was performed by a panel consisting of members of OCERS' executive management and Internal Audit. OCERS has asked the two finalists – Milliman and Cheiron - to make presentations to the Audit Committee.

Daniel Wade and Mark Olleman from Milliman gave their presentation to the Audit Committee. They gave an overview on their company, public sector and audit expertise, and project approach.

Anne Harper and Graham Schmidt from Cheiron gave their presentation to the Audit Committee. They gave an overview on their company, their staff, relevant experience, and key audit questions.

Mr. Eley left at 4:21 p.m. during Cheiron's presentation.

Mr. Eley returned at 4:56 p.m.

Ms. Freidenrich provided her evaluation in regards to Milliman and Cheiron's presentations.

Mr. Packard provided his evaluation in regards to Milliman and Cheiron's presentations.

Following discussion, a **motion** was made by Ms. Freidenrich, **seconded** by Mr. Packard to recommend Cheiron as the Actuarial Auditor to the Board.

Due to Mr. Eley's absence during the presentation by Cheiron, there was not a quorum; therefore, Mr. Eley abstained from voting.

The **motion passed unanimously.**

Meeting adjourned at 5:54 p.m.

PUBLIC COMMENTS:

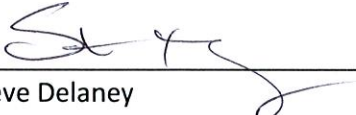
None

COMMITTEE MEMBERS COMMENTS:

None

CHIEF EXECUTIVE OFFICER/STAFF COMMENTS:

Submitted by:



Steve Delaney
Secretary to the Committee

Approved by:



Charles Packard
Committee Chair