



**Date:** October 12, 2016  
**To:** Members of the Audit Committee  
**From:** Donald R. White, Chair  
**Subject:** Summary of the October 12, 2016, Audit Committee Meeting

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Audit Committee Chair Donald White called the October 12, 2016, Audit Committee meeting to order at 9:36 a.m. Committee members present were, Annette Cain-Darnes, Tarrell Gamble, and George Wood. Other Board members present were Ophelia Basgal, Keith Carson, Liz Koppenhaver, and Elizabeth Rogers. Members of the Staff present were David Nelsen, Chief Executive Officer; Kathy Foster, Assistant Chief Executive Officer; Harsh Jadhav, Chief of Internal Audit; Margo Allen, Fiscal Services Officer; Marguerite Malloy, Associate Counsel; Betty Tse, Chief Investment Officer; Sandra Dueñas-Cuevas, Benefits Manager; and Vicki Arruda, Human Resources Manager.

### **ACTION ITEMS**

#### **1. Recommendation of External Audit Firms chosen from the Request for Proposal (RFP) to audit FY 2016-2020**

At the September 14, 2016, audit committee meeting, staff was directed to provide some supplemental information so members of the committee could better assess their position to make a recommendation to the Board to hire an external auditor firm. To this end, staff provided the following supplemental information:

1. **Language in the ACERA RFP relating to litigation disclosure:** Wording directly from the ACERA RFP: *“The firm must disclose in writing pending or resolved litigation brought against the Proposer by any entity for fraud, misrepresentation, negligence, or similar cause of action within the last five (5) years.”*
2. **Formal responses from both firms to the following question:** *Has your firm been subject to any litigation, since submitting your response to the ACERA external auditor RFP?*
  - a. WACO confirmed no litigation exposure since responding to ACERA’s RFP.
  - b. Brown Armstrong confirmed litigation exposure<sup>1</sup> since responding to ACERA’s RFP.
3. **Reference checks:** The Chief Executive Officer (CEO) conducted reference checks on Brown Armstrong at the September 2016 CALAPRS Administrator’s Institute. And the Fiscal Services Officer (FSO) conducted reference checks on WACO.

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<sup>1</sup> Brown Armstrong provided ACERA with a letter of explanation.

The board discussed its concerns with Brown Armstrong's failure to disclose the lawsuit filed against them after its RFP was submitted. The other topic of discussion was associated with the cost differential between the two responding firms.

After discussions, Ophelia Basgal moved and Liz Koppenhaver seconded a motion that the Audit Committee recommend to the Board that the Board approve Brown Armstrong, CPA to be selected as ACERA's External Audit Firm for the years 2016-2020

The motion failed 3 yes (Basgal, Koppenhaver, Rogers), 4 no (Cain-Darnes, Carson, Gamble, White), 1 abstentions (Wood).

Annette Cain-Darnes moved and Tarrell Gamble seconded a motion that the Audit Committee recommend to the Board that the Board approve Williams, Adley & Co., CA to be selected as ACERA's External Audit Firm for the years 2016-2020

The motion failed 4 yes (Cain-Darnes, Carson, Gamble, White), 3 no (Basgal, Koppenhaver, Rogers), 1 abstentions (Wood).

The recommendation will be moved to the full board on October 21, 2016.

## **2. Review, Discussion, and Possible Motion to approve the External Auditors (Williams Adley & Co. LLP) opinion on the methodology to implement GASB 74 & 75**

Staff gave a high level overview, including background and steps taken to approve the external auditor's opinion on the recommended implementation methodology for GASB Statements No. 74 & No. 75 (GASB Statements 74 & 75). Staff explained that at the March 2016 Board meeting, the recommendation to approve the external auditor's recommendation was delayed by the Board pending further collaboration with ACERA's participating employers. Staff went on to review the updated GASB Statements 74 & 75 Project Implementation Schedule, demonstrating its efforts to include the participating employers in the implementation methodology decision for GASB Statements 74 & 75.

Committee members were provided a letter to ACERA, dated October 5, 2016, from the Alameda County Administrator and the Auditor-Controller. In the letter, the County determined that it must implement the new OPEB standards by recording a net OPEB liability that is calculated using the present value offered at the actuarial valuation date, which appears to be consistent with the methodology recommended by ACERA's external auditor.

Ophelia Basgal moved and Tarrell Gamble seconded a motion that the Audit Committee recommend to the Board that the Board approve the External Auditor's recommendation of the methodology to implement GASB 74 & 75.

The motion passed 8 yes (Basgal, Cain-Darnes, Carson, Gamble, Koppenhaver, Rogers, Wood, White), 0 no, 0 abstentions.

## **INFORMATION ITEMS**

### *Internal Audit*

#### **1. Progress Report on Internal Audit Plan**

Staff presented a status update on the 2016 Internal Audit Plan and the progress on the Employer Audit Plan.

#### **2. Review Completed Audits**

Staff presented the results of the first stage of the Benefit Verification Audit, which reviewed the validity of payments made to benefits recipients. The review included the audit process, findings and recommendations.

#### **3. New Internal Audit Initiatives**

There were no new internal audit initiatives.

## **TRUSTEE/PUBLIC INPUT**

- None.

## **RECOMMENDATION**

The Audit Committee recommends to the Board of Retirement that the Board approve the External Auditor's recommendation of the methodology to implement GASB 74 & 75.

## **ESTABLISHMENT OF NEXT MEETING DATE**

TBD

## **MEETING ADJOURNED**

The meeting adjourned at 10:54 am