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Minutes #523

**Minutes of the Board of Trustees' Meeting -1-**

**Call to Order:** Chairman Pinard called the meeting to order at 8:34 a.m.

**Present:** Trustees: Donald Pinard, Bob Lynch, Dianne Mercier and Mike Woitkowski  
MECRS Staff: Gerard Fleury and Sandi Aboshar and Suzanne Wilson

**Absent:** Dick Molan, William Sanders and Mayor Gatsas

**In Attendance:** Attorney John Rich of the McLane Middleton Law Firm

**Approval of the Minutes of the Previous Board Meeting:**

Chairman Pinard entertained a motion to approve the previous board minutes of April 12, 2016 and for the Special Meeting of April 28, 2016.

Trustee Woitkowski moved to approve the board minutes of April 12, 2016 and April 28, 2016, seconded by Trustee Mercier and passed unanimously by all those trustees present.

**Approval of the Immediate Meeting Agenda:**

Trustee Lynch moved to approve the immediate meeting agenda, seconded by Trustee Woitkowski and passed unanimously by all those trustees present.

**Report of the Executive Director:**

**GASB 67 & 68 Compliance:** Mr. Fleury informed the trustees that as part for the 2015 Valuation, it was discovered that traditional recordkeeping for employer contributions is no longer adequate and that the need to apply new standards retroactively to 2015, is necessary in order for the Retirement System's actuary, Gabriel, Roeder, Smith & Co. to complete the GASB 67 & 68 segments of the valuation reports for 2015. He explained that the mechanics needed to identify and compile detailed data, required new software, custom programming, and an expanded chart of accounts. Mr. Fleury was pleased to report that the situation is under control and new procedures are being implemented and documented.

**Attendance at NEPC Client Conference:** Next Mr. Fleury reported on the NEPC Client Conference in Boston that he attended on Tuesday, May 10<sup>th</sup>. He indicated that in addition to the attending the general presentations, he had participated in several breakout sessions, one of

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which was on Liquid Alternatives and Environmental Social Governance Investing (ESG), so that he would acquire a better understanding of the strategy, which he expects NEPC will recommend to the MECRS Board later this year. He also thanked the Board for granting him permission to attend the conference as well as re-scheduling the MECRS May board meeting, in order to accommodate his attendance at the conference.

Mr. Fleury informed the trustees that NEPC is interested in attending the June BOT meeting to conduct an informational session on liquid alternatives. Also, he indicated that, due to the recent Board action of not completing the subscription agreement with Brookfield Investments, which would have satisfied the System's portfolio target allocation to real estate, NEPC will be proposing a replacement for Brookfield Investments.

Mr. Fleury asked the board if there were any objections to placing NEPC on the June agenda to address those issues, to which there were no objections.

**Previous Business:**

Review of Cost Proposal from Gabriel, Roeder, Smith & Co – Referring to the Special MECRS Board Meeting, held April 28, 2016, Mr. Fleury recapped the Board's request of the System's actuary, Gabriel, Roeder, Smith & Co., to provide supplemental valuations which would measure the financial effect of System changes.

Mr. Fleury had distributed the requested fee quote, submitted by GRS, at the start of the meeting, which included a list of six variations of supplemental valuation changes for the board's consideration.

Mr. Fleury stated that when the MECRS 2016 budget was formulated, an appropriation for additional actuarial services was not anticipated, therefore, he requested a motion to amend the 2016 budget authorization amount, with an additional appropriation of \$20,000, if the board chooses to proceed with the additional actuarial work. He noted that the fee quote obtained from the actuary indicates that the Board's requested actuarial service, would be done for an amount not to exceed \$20,000.

The Board spent time reviewing the MECRS budget, and after some discussion regarding anticipated legal fees through the end of 2016, Trustee Mercier suggested that the board consider the possibility of absorbing the \$20,000 appropriation by requesting a transfer of funds from previously authorized budget line, legal fees, at the end of 2016, in an effort to eliminate the possibility of exceeding the approved budget amount for 2016.

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Chairman Pinard agreed with Trustee Mercier and stated that the strategy of transferring funds from an area with a surplus appropriation, to fund the additional actuarial appropriation, is an option to be considered, at the end of budget year.

Mr. Fleury asked Attorney Rich for his input on pending legal costs associated with the IRS Determination Letter, for which Attorney Rich replied that he is not anticipating a high cost.

After lengthy discussion by the trustees regarding alternate ways in which to absorb the proposed actuarial cost, the board agreed to proceed with the GRS proposal and Mr. Fleury withdrew his Request for Motion to amend the approved, 2016 budget amount.

The trustees continued to discuss the individual and the incremental results of the proposed changes and the order in which they would request the System's actuary to present those valuation results to the board, in the coming months.

It was moved by Trustee Mercier to approve the GRS proposal, not to exceed \$20, 000 for the study outlined by GRS, seconded by Trustee Lynch and passed unanimously by all those trustees present.

Mr. Fleury stated that he will keep the board updated as to when the supplemental valuation results will be available for presentation to the board.

**Consent Agenda:**

Trustee Lynch moved to approve the Consent Agenda, seconded by Trustee Woitkowski and passed unanimously by all those trustees present.

**New Business:**

Report on Results of MECRS Security Audit - Mr. Fleury informed the board that as part of the budget process for this year, the MECRS was asked to approve funding for professional risk assessments. He explained that similar assessments were conducted in 2009, and while no issues were detected at that time, due to the amount of time which has passed, the ever changing nature of technological related risks, and the financial and reputational risk associated with information breeches, the risk analysis budget was approved and the audits were performed.

Mr. Fleury stated that the Audit Tax and Consulting firm RSM was hired to perform an Information Security Risk Assessment and an External Network Vulnerability Test.

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Referring to the audit results in the trustees' agenda packets Mr. Fleury was pleased to report that, on the External Network and Vulnerability Testing, RSM did not discover any significant vulnerabilities.

Mr. Fleury explained that the Information Security Risk Assessment part of the audit, transcends computer connectivity vulnerabilities and extends to physical, procedural and managerial risks. He referred to page 11 of the audit report which provides the trustees with a summary of risks which are rated high, medium or low risk. He went on to note that in addition to identifying and ranking the risks, the report estimates the level of difficulty associated with resolving each risk.

One finding determined to be of high risk addressed "Remote Access" which Mr. Fleury stated has been fully resolved and no longer exists. The remote access feature has been disabled so that it is no longer a threat. He explained that in the interest of eliminating the risk, MECRS can work without the remote access feature.

Mr. Fleury elaborated on the observation that addressed the storage of inactive member's files, using file cabinets which did not lock. He informed the trustees that the situation has been remedied through the services of a locksmith and the physical security of the records for terminated and deceased members, is now equal to that of active and living retired members.

The third high risk observation, Mr. Fleury reported, dealt with "Administrative Rights to the Computers". Mr. Fleury felt that this observation stems from the use of a methodology which, if applied to a larger organization, would dictate that administrative rights should be limited to high level information technology staff. He further explained that in a three person organization with distributed duty assignments and a need for a measure of redundancy, the operational models recommended in the findings were, in his opinion, unrealistic.

Trustee Mercier asked Mr. Fleury if there are cases within the MECRS Organization where a staff member can make a financial decision or does each action require two staff members for processing financial responsibilities.

Mr. Fleury replied that it depends on the nature of the transaction and for such transactions Mr. Fleury indicated that those transactions would be processed through the System's custodial bank, State Street Bank & Trust. State Street Bank is the mechanism for all financial disbursements.

Mr. Fleury further elaborated by stating that some financial decisions do require dual authorization initially, unless it is a repetitive action.

In an effort to better understand the System's protocol of authorization to release funds, Trustee Mercier requested further discussion on Security Risk Assessment by placing the issue on a future agenda when the auditors would be present and the subject could be discussed with them.

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Mr. Fleury stated that the System Auditor, Berry Dunn, is scheduled to attend the July, Board of Trustees Meeting, to deliver the annual audit results and should be able to address Trustee Mercier's concerns at that time.

In summary, Mr. Fleury stated that two security audits have satisfied the purpose for which they were performed. The most important aspect was the consultant's inability to penetrate the computer system from outside. Mr. Fleury commented that while a number of observations were not germane to an operation like MECRS, due to the organizations small staff size, a few valid observations were relevant and remedial action has already been taken on those observations.

Regarding the "Remote Access" that has been eliminated, Attorney Rich asked if that is due to the specific software package that the System is currently using, and also, is that going to impact the ability to work from home, for reasons such as, severe weather conditions.

Mr. Fleury replied that the "Remote Access" involves the router. The router has a switch to either allow external connection or not. If external connection is necessary then the switch must be set to allow it, in which case a network password is required. Mr. Fleury indicated that the switch is currently on the off position so in answer to Attorney Rich's question, remote access is not possible.

Trustee Mercier asked if turning off the "Remote Access" switch impairs the Business Continuity in any way, to which Mr. Fleury responded, "No, it does not," the key functions carried out by the organization are conducted in "Cloud environments." The MECRS network is mostly a storage place and a platform on which the office applications operate. The trustee's continued to discuss different scenarios regarding the business continuity plan.

Mr. Fleury closed his report by informing the trustee's that there are policies and procedures in place and on an annual basis each process is reviewed, which in turn is provided to the System's Auditor, Berry Dunn. A full copy of the Security audit findings has been provided to the MECRS auditors to augment an annual information technology questionnaire which is part of the general audit of MECRS each year.

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**Motion to Adjourn:**

Having conducted all the business of the day, Trustee Lynch moved to adjourn the meeting at 9:28 a.m. seconded by Chairman Pinard and passed unanimously by all those trustees present.

Respectfully Submitted,

Gerard E. Fleury  
Executive Director