

New Mexico
Public Employees Retirement Association
Audit & Budget Committee Meeting
December 13, 2022

1. Call to Order

This meeting of the PERA Audit & Budget Committee was held on the date cited above via Zoom tele/video conferencing. Chair, Diana Rosales Ortiz, called the meeting to order at approximately 9:00am.

2. Roll Call

The meeting attendance met quorum with the following members present;

Committee Members Present

Valerie Barela
Francis Page
Shirley Ragin
Diana Rosales Ortiz, Committee Chair

Members Absent

Maggie Toulouse Oliver

Other Board Members Present

Claudia Armijo
Loretta Naranjo Lopez

Staff

Greg Trujillo, Executive Director
Trish Winter, Executive Assistant
Anna Williams, Deputy Director
Lynette Kennard, CFO
Michael Shackelford, CIO
Kristin Varela
Misty Schoeppner, Deputy General Counsel
Karyn Lujan, SmartSave Plan Manager
Geraldine Garduno, Assistant General Counsel
LeAnne Larrañaga-Ruffy, Deputy CIO
Angela Romero, Albuquerque PERA Office Manager
Marlena Riggs, Budget Manager

Others in Attendance

Laura Beltran-Schmitz, CliftonLarsonAllen
Brittany Smith, CliftonLarsonAllen

3. Approval of Agenda

Shirley Ragin moved to approve the agenda. Francis Page seconded. The motion passed with a unanimous roll call vote as follows;

Valerie Barela	Yes
Francis Page	Yes
Shirley Ragin	Yes

Diana Rosales Ortiz Yes

4. Approval of August 25, 2022, Audit & Budget Committee Minutes

Francis Page moved to approve the August 25, 2022, Audit & Budget Committee Minutes. Shirley Ragin seconded. The motion passed with a unanimous roll call vote as follows;

Valerie Barela	Yes
Francis Page	Yes
Shirley Ragin	Yes
Diana Rosales Ortiz	Yes

5. New Business

A. Results of Internal Audit Risk Assessment and Internal Audit Plan

Laura Beltran-Schmitz, with CliftonLarsonAllen (CLA), presented the results of the risk assessment process and the proposed plan. She will lead each proposed project with Ms. Brittany Smith and Ms. Emily Wilson. Other individuals will also join the projects depending on their level of expertise required for the projects.

Ms. Beltran-Schmitz explained that CliftonLarsonAllen works with PERA in a consulting capacity. The relationship is different from that of external auditors. As PERA's internal auditors, CliftonLarsonAllen must maintain an independent and objective framework to provide the results of each plan. If there are control improvement opportunities, CLA must bring those to the Board's attention even though they are consulting. They aim to work with PERA to achieve improved results, accomplish PERA's objective, and bring a sound system of controls and processes within PERA.

Ms. Beltran-Schmitz said they've been working on gathering information for the risk assessment process. A questionnaire was created in collaboration with two Board members. The questionnaire was pushed out to other Board members and members of management, and other PERA staff. Responses were received from four Board members, four members of executive management, and 22 PERA staff members across various levels. All these responses were incorporated in creating the proposed plan.

Ms. Beltran-Schmitz gave her presentation and stood for questions.

Mr. Page asked if there was anything that had been done by the prior internal auditor that needs to be considered in this current process. Ms. Beltran-Schmitz reiterated that her team had reviewed the past audit plans and evaluated past follow-ups that can be incorporated. She mentioned they still needed to have a formal conversation with the prior internal auditors, but they were able to pick up what they could include in the proposed plans.

Ms. Brittany Smith then gave a high-level overview of the internal audit plan. She listed categories on the plan: disability payments include records management, case management software, employer education, outreach, succession planning, modern management, employer contribution reporting errors, investment oversight, investment department-related technology, and member online account self-service.

Ms. Smith said what was proposed for the upcoming year was based on what would make sense to do first. They aimed to look at a mix of different departments each year by doing something benefits-related, management related or IT-related each year.

Disability payments ranked as more moderate on the priority level because they came up more regularly but were offset by not being an exceptionally high-risk area. IT member online account self-service options were also highlighted. Ms. Smith stated that in this piece, they would look from the cybersecurity perspective and loop in IT professionals. They will look at PERA's member website to see if there's anything that should be improved.

Modern management is on the list as high priority, high risk. Marking it as a high risk meant people on the survey had comments towards that concern. Ms. Smith stated that this is a concern across the world. There have been many turnovers in the country, and a great resignation has been seen in the workplace. Ms. Smith added that it would be critical for PERA to ensure it is retaining its workforce and having a solid transition.

Ms. Smith mentioned that there is a timeline to follow up on outstanding observations. In the first year, 80 hours were allocated to reviewing exceptional comments. More time was issued in 2025 to ensure that additional time is spent looking at anything completed. She pointed out that the items REDW reported back to PERA in June still need to be implemented. Therefore, the additional time was set aside to allow PERA to implement everything.

Ms. Smith stated that there is additional work planned for 2024. She mentioned that records management had been highlighted yellow, indicating that it is an opportunity for general improvement in efficiency. Several departments have brought up the records management process. Ms. Smith stated that how documents and files are organized should be collaborative across the organization.

On the investments department-related technology, Ms. Smith stated that different pensions use different programs to manage their assets. She mentioned that much feedback received on this piece would be incorporated, and the IT professionals would be looped in.

Ms. Smith stated that succession planning was also seen as a classic piece because many workforce entities across the country have focused on having a solid succession plan. She added that this matched PERA's strategic plan incorporating a succession planning aspect. Comments were also received that PERA is actively working on succession planning. Therefore, CliftonLarsonAllen put an additional year on it to give time to review what PERA will put together.

Other areas that were mentioned are investments, manager selection, and monitoring. Ms. Smith stated that this area should continue to be looked at periodically because it is critical to PERA's controls. She added that CliftonLarsonAllen would work to assist the Committee and the Board to feel comfortable with PERA's processes and decision-making. Ms. Smith said that investments, manager selection, and monitoring would have been done in year one, but her company wanted to give PERA's new CIO enough time to adjust the processes that he felt were necessary. The timing was therefore slotted for 2024.

Ms. Smith stated that management/governance includes organizational communication and efficiency. She mentioned that PERA had done an internal audit around six years ago; CliftonLarsonAllen will perform a complete update after reviewing any recommendations.

Ms. Smith gave a brief overview of the planned procedures. Concerning the follow-up on outstanding audit recommendations, Ms. Smith emphasized that implementing the audit

recommendations is the responsibility of management. The internal auditors will then assess the implementation of recommendations and evaluate the adequacy and timeliness of corrective action.

CliftonLarsonAllen will do additional work over any recommendations marked as high or priority in the previous REDW reports and in any reports they complete. The company also plans to perform less work to validate the low-level recommendations. Ms. Smith urged the Committee and Board members to provide input on what they would like to see being done. She added that the internal auditors would incorporate the recommendations throughout the year and report to the Audit & Budget Committee during quarterly meetings.

Mr. Lawrence Davis noted that investment oversight ranked very high concerning the risk ranking. He felt that with its high ranking, it shouldn't be pushed off until a year down the road. He further noted that it still needs to be addressed in the fiscal year audits. In response, Ms. Smith stated that the investment manager selection and monitoring covered the oversight piece. According to her, investment oversight entailed manager selection by the Board, how the Board tracks funds and how the Board decides which funds need to be dropped if they are not performing.

Mr. Davis said investment oversight and manager selection and monitoring should differ. He indicated that Board members could better grasp how investments are managed and what type of investments they should look at. He felt that future Board members who don't have a professional background in investment should be able to know how to manage and monitor a \$17 billion or \$18 billion fund. Mr. Davis believed that investment manager selection and monitoring is a tiny portion of oversight. He wanted to see an internal audit that recommends best practices based on how other organizations manage and discharge their fiduciary and oversight duties.

Ms. Smith stated that what they presented was only a proposed plan. They will go back and make some adjustments to that piece. She apologized for misinterpreting the investment oversight and thanked Mr. Davis for the clarification.

Chair Rosales Ortiz stated that while employer outreach and education were currently highlighted green, it had been an issue before and has been a work in progress. She believed it would be a good use of time and added that though it might not require hundreds of hours like investment, it would be something to be mindful of.

Ms. Beltran-Schmitz reminded the Committee that the plan document is a fluid document subject to change. She urged the Committee and the Board to keep the communication lines open and continue giving their input. Any additional elements will be incorporated as feedback is received from the Board.

Ms. Smith added that if the Committee agrees to move forward with the proposed plan, they could start on the first project, the disability payments, in January 2023. She stated that the other preference would be to start on the IT piece. Feedback could then be incorporated through adjustments in the remaining items.

Francis Page moved to accept the proposed internal audit risk assessment and internal audit plan with the provision to look into the investment area again. Shirley Ragin seconded. The motion passed with a unanimous roll call vote as follows;

Valerie Barela	Yes
Francis Page	Yes

Shirley Ragin Yes
Diana Rosales Ortiz Yes

B. Review and Update the Audit & Budget Committee Charter

PERA's CFO, Lynette Kennard, reported that the Audit & Budget Committee Charter requires an annual review. The review was recently completed with a few proposed grammar and clarification updates.

Francis Page moved to approve the changes to the Charter. Valerie Barela seconded. The motion passed with a unanimous roll call vote as follows;

Valerie Barela Yes
Francis Page Yes
Shirley Ragin Yes
Diana Rosales Ortiz Yes

C. Review Budget and Actual for FY22

Ms. Kennard presented a slide showing the budget and actual for the year ended June 30, 2022. She reported that for the 200 category, which is personnel services and employee benefits, PERA had total expenditures of \$7.7 million.

In the 300 category, which is contractual services, PERA had total expenditures of \$20.1 million, while in the 400 category, which is other operating costs, PERA had total spending of \$2 million.

The report showed that PERA had an excess budget in all categories, which reverted to the trust fund.

In response to Mr. Page's question, Ms. Kennard clarified that the projected variances include encumbrances.

D. Memo of Continuity

Ms. Kennard stated that the Memo of Continuity listed the items reviewed and completed by the Audit & Budget Committee in 2022. It also listed the pending things at the end of the year. It will be an excellent tool for the following Committee in 2023.

Chair Rosales Ortiz thanked the Committee members for their participation and hard work in the Committee. She acknowledged that a lot had been accomplished during the year. She also commended the PERA staff for all the awards won this year for financial reporting and good practices. She wished everyone a happy holiday and hoped for another year of progress.

6. Adjournment

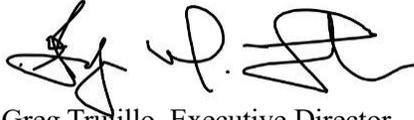
With no other business to discuss, Chair Rosales Ortiz adjourned the meeting at approximately 10:05am.

Approved by:

Ratified by Committee on April 11, 2023

Diana Rosales Ortiz, Committee Chair

ATTEST:

A handwritten signature in black ink, appearing to read 'G. Trujillo', written over a horizontal line.

Greg Trujillo, Executive Director