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# **Public Employees Retirement Association of New Mexico**

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*Internal Audit Plan*

*June 30, 2020 Through 2022*



CPAs | Business & Financial Advisors

**Public Employees Retirement Association of New Mexico  
Internal Audit Plan  
Years Ending June 30, 2020 through 2022**

**BACKGROUND**

REDW<sub>LLC</sub> (REDW) is providing the following plan for internal audit services to the Public Employees Retirement Association of New Mexico (PERA) for the fiscal years ending June 30, 2020 through 2022. REDW's core audit team includes:

- Jessica Bundy, Principal
- Steve Cogan, Concurring Principal
- Caitlin Gutierrez, Internal Audit Manager

This audit plan summarizes planning and risk assessment procedures and describes the planned allocation of internal audit resources for the fiscal years ending June 30, 2020 through 2022. As additional information is obtained throughout the year, we will reevaluate the risk areas and will adjust the audit plan as considered necessary upon approval by management and the Audit and Budget Committee.

**PLANNING AND RISK ASSESSMENT**

To plan the nature, scope and extent of internal audit services, we:

1. Met with eleven individuals, including executive management, Board Members, and other various employees, to gain an understanding of changes to the organization, new processes, the perceived risks and areas that would benefit most from internal audit procedures.
2. Read relevant portions of the New Mexico Administrative Code.
3. Considered PERA's June 30, 2018, audited financial statements.
4. Considered documents provided by management including strategic plan for 2018-2022.

## RISK MATRIX AND AUDIT CHART

Appendix A depicts processes/topics that were identified during the internal audit risk assessment process, which are ranked by likelihood of occurrence and magnitude of potential impact. Bubble size is correlated to the inherent risk and number of times a concern was expressed in an area. All risk departments/topics were considered in the following plan. Appendix B lists audits performed from 2015 through 2019 and anticipated audits for 2020 through 2022.

## ESTIMATED ALLOCATION OF EFFORT

Based on our planning and internal audit risk assessment, we propose the following allocation of internal audit resources. Changes to the timing and estimated hours will be communicated to and approved by executive management. Each year, we will evaluate whether any modifications need to occur and we will discuss those proposed change with management and the Audit Committee.

### Fiscal Year 2020

Internal Audit Area	Estimated Hours
Census Data and Employer Payroll	300
457 Plan – Custody Transfer Process	100
Investments – Manager Selection and Monitoring	200
Governance and Investment Policy Statement (IPS) Compliance	300
Follow-up on Outstanding Observations and Internal Audit Training	60
Total Hours	960

### Fiscal Year 2021

Internal Audit Area	Estimated Hours
Benefit Payments and Member Refunds	250
Years of Service and Wage Eligibility	250
Investments – Performance Reporting	150
Rio Updates and Enhancements	250
Follow-up on Outstanding Observations and Internal Audit Training	60
Total Hours	960

### Fiscal Year 2022

Internal Audit Area	Estimated Hours
Information Technology	200
Employer Payment Transmittals	200
Investments – Reconciliation and Monitoring	200
Legislative Updates	150
Follow-up on Outstanding Observations and Internal Audit Training	60
Update of Audit Plan and Risk Assessment	50
Total Hours	860

## PLANNED PROCEDURES

Based on our planning and internal audit risk assessment, below are proposed tentative audit steps for the fiscal years ending June 30, 2020 through 2022. At the start of each internal audit, a full risk assessment will be completed and the tentative steps will be adjusted based on that assessment.

<b>Fiscal Year 2020</b>	
Census Data and Employer Payroll	<ul style="list-style-type: none"> <li>• Evaluate the process for collecting, updating and retaining participant records, including new employee applications.</li> <li>• Evaluate the adequacy of the process for ensuring accuracy and completeness of participant data provided to the plan actuary. Compare the census data to the data that was provided to the actuary and identify and investigate differences.</li> <li>• Evaluate the process for monitoring audit logs and test that changes were supported and reasonable.</li> <li>• Test a sample of employer annual payroll reports and agree them to the payroll upload for the year and to the contribution file to ensure all three agree.</li> <li>• Test employers for accurate data and proper processing of new member inputs and changes.</li> </ul>
457 Plan – Custody Transfer Process	<ul style="list-style-type: none"> <li>• Determine whether investments and assets transferred were properly reconciled.</li> <li>• Test a sample of participants to verify accounts were transferred properly.</li> <li>• Test a sample of investments to determine whether the recorded value after the transfer was accurate and met expectations in light of changes in market and other considerations.</li> </ul>
Investments – Manager Selection and Monitoring	<ul style="list-style-type: none"> <li>• Evaluate investment manager (manager) selection methodology, manager search techniques, and analyze the related request for proposal process.</li> <li>• Assess management fees and expenses to ensure they are properly calculated and comparable with peers and benchmarks.</li> <li>• Review the process for selecting alternative investments. Test whether reports were filed after onsite visits and if these reports reflect reasonable due diligence criteria.</li> </ul>
Governance and Investment Policy Statement (IPS) Compliance	<ul style="list-style-type: none"> <li>• Ensure Board training is occurring at an appropriate frequency to both comply with the NM Administrative Code and to ensure that Board Members are apprised of changes that affect their responsibilities in a timely manner.</li> <li>• Evaluate the process for identifying and addressing conflicts of interest and fraud, waste and abuse.</li> <li>• Evaluate the IPS for changes and test to determine compliance with changes, if applicable.</li> </ul>
Follow-up on Outstanding Observations	<ul style="list-style-type: none"> <li>• Obtain the current status of outstanding internal audit observations.</li> <li>• Determine whether outstanding internal audit observations are resolved.</li> <li>• Communicate current status to the Audit and Budget Committee.</li> </ul>

<b>Fiscal Year 2021</b>	
Benefit Payments and Member Refunds	<ul style="list-style-type: none"> <li>• Evaluate the adequacy of the processes and controls related to processing and recording distributions to retired members and beneficiaries as well as member refunds.</li> <li>• Determine whether applications for retirement were complete and agree to supporting documents and that changes to member data were supported and entered properly.</li> <li>• Determine that payments began timely, for the correct amount and that taxes were properly withheld.</li> <li>• Assess the adequacy of the process for ensuring the recipients' eligibility to receive benefits including evaluating PERA's procedures for determining continuing eligibility of participants or beneficiaries.</li> </ul>

### Fiscal Year 2021

Years of Service and Wage Eligibility	<ul style="list-style-type: none"> <li>• Test a sample of employees and recalculate the years of service to ensure compliance with the NM Administrative Code and internal policies.</li> <li>• Test system set up of calculations to ensure accuracy.</li> <li>• Identify and test a sample of employees who changed employers to ensure years of service were properly calculated.</li> <li>• Test that employee compensation provided by the employer was in accordance with the NM Administrative Code for eligible compensation.</li> <li>• Analyze and identify unusual trends in wage data and test wage eligibility.</li> </ul>
Investments – Performance Reporting	<ul style="list-style-type: none"> <li>• Evaluate the adequacy of the processes and controls related to investment performance reporting to the Board, management, and the public.</li> <li>• Test the accuracy, completeness, and effectiveness of management’s reporting of financial performance to PERA and the public.</li> <li>• Test metrics used by external managers for alignment with internal reporting measures.</li> <li>• Test performance benchmarks against similar entities.</li> </ul>
RIO Updates and Enhancements	<ul style="list-style-type: none"> <li>• Gain an understanding of RIO enhancements and updates performed since the last internal audit cycle.</li> <li>• Test whether validation rules are properly capturing errors and that identified issues are resolved.</li> <li>• Test enhancements and ensure that processing and reporting have improved.</li> </ul>
Follow-up on Outstanding Observations	<ul style="list-style-type: none"> <li>• Obtain the current status of outstanding internal audit observations.</li> <li>• Determine whether outstanding internal audit observations are resolved.</li> <li>• Communicate the current status to the Audit and Budget Committee.</li> </ul>

### Fiscal Year 2022

Information Technology	<ul style="list-style-type: none"> <li>• Evaluate the adequacy of PERA’s IT governance, IT policies and procedures (P&amp;Ps), and oversight of the IT security program including workstation security, security awareness training, and controls over sensitive data on various types of devices.</li> <li>• Gain an understanding of updates to IT processes and procedures and determine if controls in place are adequate.</li> <li>• Assess the adequacy of information security controls, data storage and retention.</li> <li>• Evaluate and test logical access control policies and procedures, including new user setup, changes in position and termination of access.</li> <li>• Evaluate controls over employee/third party vendor access to sensitive data, and user/system activity reviews.</li> </ul>
Employer Payment Transmittals and Related Reconciliations	<ul style="list-style-type: none"> <li>• Test a sample of employer contributions for timeliness and to determine if contribution payments agree to corresponding payroll files.</li> <li>• Test that employee and employer contribution percentages were accurate and based on NM Administrative Code changes and thresholds.</li> <li>• Test a sample of reconciliations to determine if they were completed and reviewed by appropriate personnel.</li> <li>• Evaluate the process for correcting errors including the timeliness of corrections and appropriate accounting of over/under remittals.</li> </ul>
Investments – Reconciliation and Monitoring	<ul style="list-style-type: none"> <li>• Test that ACH and wire transfers are being appropriately authorized, initiated, released, reviewed, and reconciled.</li> <li>• Test selected internal controls, including: examine the segregation of duties, the reconciliation process, the system controls (i.e., passwords), and management’s review over ACH transactions.</li> <li>• Test the reconciliation processes for timeliness and accuracy.</li> </ul>
Legislative Updates	<ul style="list-style-type: none"> <li>• Obtain an understanding of any legislative changes affecting PERA.</li> <li>• Evaluate implementation strategy for significant changes.</li> </ul>

<b>Fiscal Year 2022</b>	
Follow-up on Outstanding Observations	<ul style="list-style-type: none"> <li>• Obtain the current status of outstanding internal audit observations.</li> <li>• Determine whether outstanding internal audit observations are resolved.</li> <li>• Communicate the current status to the Audit and Budget Committee.</li> </ul>
Update of Audit Plan and Risk Assessment	<ul style="list-style-type: none"> <li>• Perform interviews and gather relevant data to update the Internal Audit Plan, as needed.</li> <li>• Re-evaluate the allocation of resources and internal audit hours based on information gathered.</li> <li>• Present the updated plan to the Audit and Budget Committee.</li> </ul>

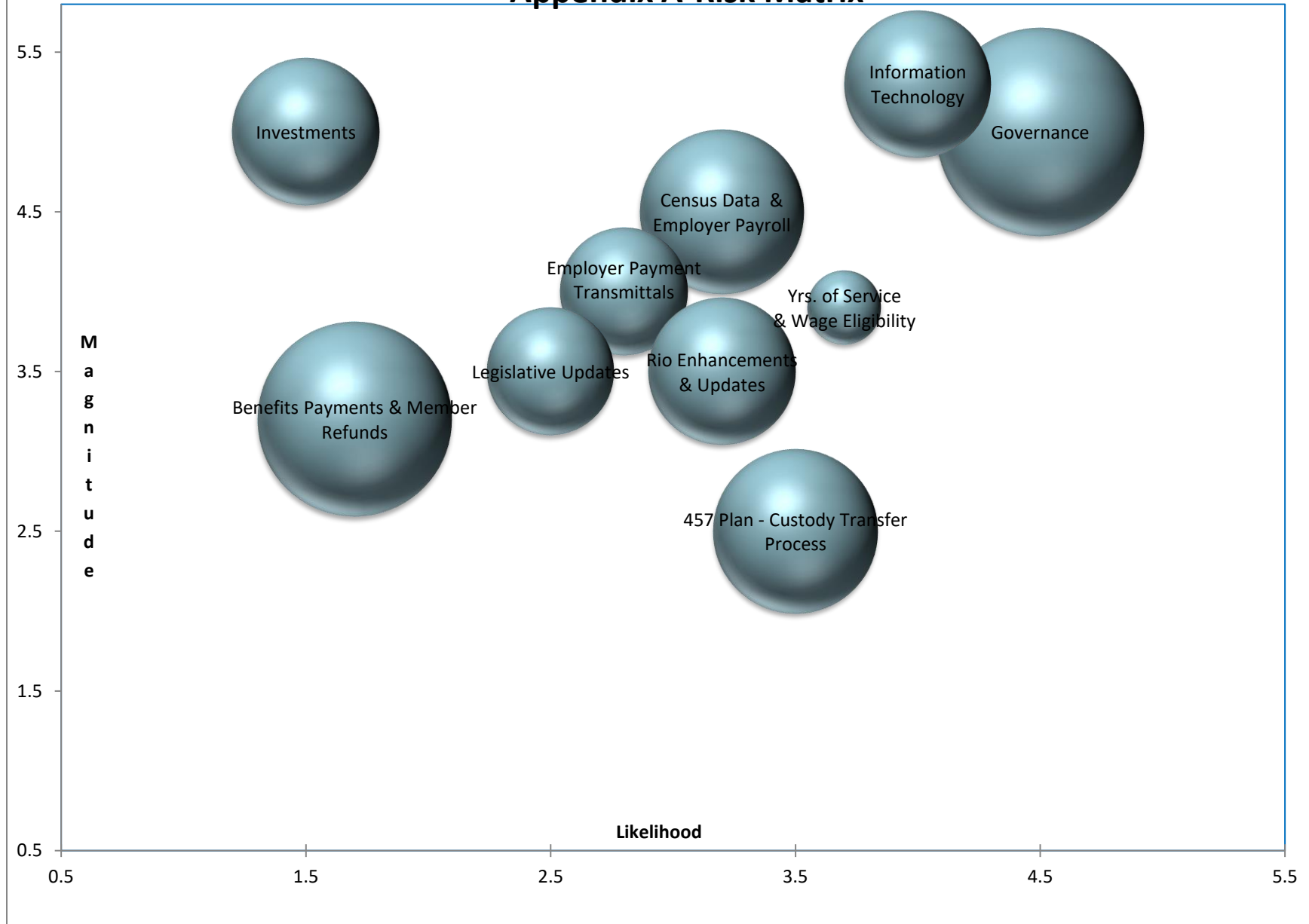
### **AUDIT COMMITTEE APPROVAL**

The plan was presented to executive management and the Audit Committee.

REDW LLC

Albuquerque, New Mexico  
May 31, 2019

## Appendix A-Risk Matrix



## Appendix B – Audits Performed

	2015	2016	2017	2018	2019	2020	2021	2022
<b>Audit Areas</b>								
Census Data and Employer Payroll	X					X		
Investments – Manager Selection/Monitoring						X		
Governance						X		
457 Plan – Custody Transfer Process						X		
Benefit Payments and Member Refunds		X					X	
Years of Service and Wage Eligibility			X				X	
Investments – Performance Reporting				X			X	
Rio Enhancements and Updates		X					X	
Information Technology				X				X
Employer Payment Transmittals					X			X
Investments – Reconciliation and Monitoring					X			X
Legislative Updates								X
Custody Bank Transfer Process	X							
Investment Policy Statement Compliance		X						
Procurement, Accounts Payable and 1099 Reporting			X					
Organizational Communication and Efficiencies				X				
Customer Service					X			



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# **Public Employees Retirement Association of New Mexico**

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*Benefit Payments  
Internal Audit  
August 2020*

**REDW**<sup>LLC</sup>  
CPAs | Advisors

**Public Employees Retirement Association of New Mexico**  
**Internal Audit**  
**Benefit Payments**

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# **Public Employees Retirement Association of New Mexico Internal Audit Benefit Payments Report**

## **INTRODUCTION**

We performed the internal audit services described below solely to assist the Public Employees Retirement Association of New Mexico (PERA) in evaluating processes related to benefit payments and member refunds. Our services were conducted in accordance with the Consulting Standards issued by the American Institute of Certified Public Accountants and the terms of our Professional Services Contract agreement for internal audit services. Since our procedures were applied to samples of reports and processes, it is possible that significant issues related to the areas tested may not have been identified.

Although we have included management's responses in our report, we do not take responsibility for the sufficiency of these responses or the effective implementation of any corrective action.

## **PURPOSE AND OBJECTIVES**

Our internal audit focused on evaluating processes and controls related to benefit payments to retirees including new retiree application processing, determination of member benefits, placement of members on payroll, and the direct deposit change processes. In addition, we tested user access and user terminations in Case Manager and RIO to determine the appropriateness and the timeliness of user termination.

## **SCOPE AND PROCEDURES PERFORMED**

**In order to gain an understanding of the processes and operations, we interviewed the following personnel:**

- Melinda Marquez, Member Services Bureau Chief
- Sandra Mirabal, Retirements Manager
- Jesse Godfrey, Payroll & Refunds Manager

**In order to gain an understanding of the processes, we read relevant portions of:**

- PERA Retirements: Preliminary Estimate, revised March 11, 2020
- PERA Retirements: Placing Member on Payroll, revised December 18, 2019
- PERA Payroll Procedures, revised July 20, 2020

**We performed the following procedures:**

***Retirement Applications:*** We selected a sample of 15 new retirement applications from a total population of 2,010 processed between July 1, 2019 and June 30, 2020. We tested to determine:

- The Case Manager checklist was completed and included the date the documents were received;
- Documents required on the checklist were scanned into the case file before the application review was completed;
- History log was uploaded to Case Manager and employment history detailed in the log agreed to service credit logged in Case Manager;
- Preliminary benefit calculation agreed to independent recalculation;
- The application was reviewed by someone other than the preparer; and
- Notes were added to the case reflecting any issues or variations to the process, if necessary.

***Placement of Member on Payroll:*** Utilizing the sample from above, we reviewed the case files in Case Manager and RIO and tested to determine:

- The employer certification was obtained and uploaded to Case Manager;
- Amounts in the employer certification agreed to amounts input into Case Manager;
- PERA staff deemed all required documentation to have been received before sending the final benefit letter;
- Termination date per Case Manager agreed to the termination date per the employer certification;
- Final average salary was calculated and agreed to the amounts input into Case Manager;
- Banking information was entered correctly and amounts paid during the first payroll agreed to the final benefit letter;
- The retiree was placed on payroll within 30 days of the retirement date;
- The application was reviewed by someone other than the preparer; and
- Notes were added to the case reflecting any issues or variations to the process, if necessary.

***Direct Deposit Changes:*** We selected a sample of 40 direct deposit change requests from a total population of 2,020 processed between July 1, 2019 and June 30, 2020. We tested to determine:

- A complete and signed direct deposit change form was uploaded to Case Manager;
- Demographic information detailed on the change form agreed to demographic information in Case Manager and RIO;

- Direct deposit details for the new account agreed to details input into Case Manager and RIO;
- Direct deposit change was made within 14 days of receipt of the change request and reviewed within 14 days after the change was made or notes were written in Case Manager indicating the reason for the delay;
- The direct deposit change was reviewed by someone other than the preparer; and
- An adequate amount of time was spent reviewing each step of the process to ensure procedures were followed.

***Case Manager User Access:*** For the population of 47 Case Manager users as of June 30, 2020, we obtained Case Manager user access levels and tested to determine:

- User access appeared appropriate for job responsibilities assigned; and
- Case Manager controls limiting the ability of a case reviewer to audit their own file were in place and operating.

***Case Manager User Terminations:*** For the population of 12 Case Manager users terminated between July 1, 2019 and June 30, 2020, we obtained Human Resources and Information Technology user termination dates and tested to determine that user access was revoked as of the date of termination.

## **OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

As a result of our testing, REDW identified the following observations:

### ***1) Direct Deposit Changes***

In accordance with PERA's direct deposit change process, PERA staff are required to validate direct deposit change requests through the use of a Direct Deposit Change Form submitted by the member when making changes to the member's account. We identified there were two forms utilized, with the newer form requiring more information than the other. Our testing also determined for one of 40 direct deposit change requests, information on the voided check did not agree to information on the Direct Deposit Change Form and no notes existed in the case file to verify additional research had been performed to ensure the request was legitimate. Additionally, the direct deposit change policy did not address the review process to ensure it was robust enough to identify potential red flags within the documentation received.

**Potential Risk: Moderate** – The absence of incomplete and/or inconsistent documentation when processing direct deposit changes increases the risk that a fraudulent change may be made. In addition, the absence of policies and procedures that address the review process and items to consider when looking for potential fraudulent requests elevates this risk; however, there has been communication internally regarding items to be aware of when processing direct deposit changes thus reduces the risk to moderate.

**Recommendation:** While PERA has taken several steps towards addressing the risk of fraudulent direct deposit changes, we recommend they implement training on at least an annual basis to ensure employees who process direct deposit changes are aware of what to look for when a direct deposit request is submitted to reduce the risk a fraudulent change may be processed. Policies and procedures should also be updated to include a more robust review process to ensure reviewers are looking closely at items submitted and asking appropriate questions to ensure the request is legitimate. PERA should consider infusing the language from the internal memo sent in November 2019 regarding the precautions and guidelines for direct deposit changes into the payroll policies and procedures. Lastly, PERA should consider discontinuing use of the old direct deposit form and only allowing the new form to be submitted.

**Management's Response:** Management concurs with the recommendation and we will work on implementing a yearly training related to direct deposit changes for staff. PERA management will work on infusing the language from our internal memo into the policy and procedures for direct deposit changes. We will complete this by the end of FY 2021.

## **2) *Case Manager and RIO User Terminations***

Upon termination of an employee from PERA, user access should be disabled in both RIO and Case Manager on the date of termination to ensure access to sensitive data is removed immediately. This can be accomplished by disabling the user's Active Directory account. Our testing identified 6 of 12 user terminations where the disabling of the Active Directory account did not occur on the date of termination. Variances ranged from 2 to 30 days after the date of termination.

**Potential Risk: Moderate** – If users are not terminated timely from Case Manager and RIO through the Active Directory, employees may have the ability to access information in Case Manager and RIO should access to a PERA device be gained. This risk is reduced from high however as employee credentials only work on a PERA device therefore, terminated employees could not log in from their home computer or cell phone.

**Recommendation:** PERA should implement a process to ensure the Information Technology (IT) Department is aware when user access needs to be terminated. This communication should happen either prior to or on the day of the termination so IT can disable Active Directory access in a timely manner.

**Management's Response:** Management concurs with the recommendation and we will have our human resource staff send a HelpDesk ticket to IT when an employee leaves PERA. Management will also work on developing a checklist for managers for when an employee leaves PERA. We will complete this by the end of FY 2021.

## **3) *Case Manager Checklist***

Case Manager provides the ability for PERA to indicate which required documents are received and the date on which the documents were received via a checklist function within the system. PERA's Preliminary Benefit Estimate procedural manual identifies the use of the checklist as a required step in PERA's process over application processing. During our testwork of retirements, we identified 4 of 15 retirement cases in which the checklist was not utilized. In two of these instances, a document needed to substantiate benefit elections at a

later stage of the process was not obtained before completion of the application review stage. We also identified 2 of 15 retirement cases in which the checklist was utilized but not updated after obtaining additional information.

**Potential Risk: Moderate** - Inconsistent use of the checklist function in Case Manager elevates the risk that required forms may not be obtained or stages in the process not followed. In addition, there is no review at the checklist stage to ensure it was completed and all forms were present escalating the risk that documentation could be missed. The forms not obtained at this stage were, however, obtained at a later stage in which the payroll group performed its own verification of information which reduces the risk from the high.

**Recommendation:** PERA should implement a review of the checklist to ensure required documents are present and required steps were marked as complete. In addition, PERA should conduct training with employees regarding use of checklists. This training should emphasize the importance of documenting procedures performed to ensure the file is complete before moving on to the next stage of the process. PERA should identify employees who do not apply procedures in accordance with the PERA procedural manuals and conduct additional training with these employees.

**Management's Response:** Management concurs with the recommendation and will work on training staff to ensure the checklist is completed and they understand the importance of documenting procedures. We will complete this by the end of FY 2021.

\* \* \* \* \*

This report is intended for the information and use of the PERA management, the audit committee, members of PERA's Board and others within the organization.

We discussed and resolved other minor observations with management and received excellent cooperation and assistance from PERA during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico  
October 7, 2020

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# **Public Employees Retirement Association of New Mexico**

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*Investment Performance Reporting*  
*Internal Audit*  
*March 2021*

**REDW** LLC  
CPAs | Advisors



**Public Employees Retirement  
Association of New Mexico  
Internal Audit  
Investment Performance Reporting**

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# **Public Employees Retirement Association of New Mexico Internal Audit Investment Performance Reporting Report**

## **INTRODUCTION**

We performed the internal audit services described below solely to assist the Public Employees Retirement Association (PERA) in assessing the processes related to investment performance reporting, including the accuracy and timeliness of performance reports delivered to the public, management, and the Board of Directors. Our services were conducted in accordance with the Consulting Standards issued by the American Institute of Certified Public Accountants and the terms of our Professional Services Contract agreement for Internal Audit Services. Since our procedures were applied to samples of transactions and processes, it is possible that significant issues related to the areas tested may not have been identified.

Although we have included management's responses in our report, we do not take responsibility for the sufficiency of these responses or the effective implementation of any corrective action.

## **PURPOSE AND OBJECTIVES**

Our internal audit focused on testing that performance reports were compiled timely, accurately and cash or basis point variances, if applicable, were investigated and resolved. We also tested that the materials presented to the Board and Investment Committee was reviewed prior to presentation. In addition, we gained an understanding of controls over investment manager monitoring to ensure manager actions were aligned with stated objectives, the Investment Policy Statement, and contracts. We also tested to determine if benchmark changes were presented and approved. Lastly, we performed interviews with the Investment Committee and determined if material presented is relevant and impactful.

## OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

As a result of our testing, we identified the following observation:

### *1) Investment Committee Communication*

Communication, both at the committee meetings as well as with information requests, that provides relevant and impactful investment information is critical to ensure Investment Committee members are aware of and understand what is happening in the investment portfolio to assist with providing effective oversight and governance. Our interviews with Investment Committee members determined:

- Information presented in the Investment Committee packets is not clear, concise or easy to understand resulting in committee members often having to try and identify the relevant pieces. Since many of the committee members hold full-time jobs and have other personal and professional obligations, the absence of the presentation of key facts in an easily accessible manner prior to the committee meeting can often result in committee members feeling unsure of what to focus their research efforts on with the limited time available.
- Committee members did not feel the internal training provided was adequate to ensure a thorough knowledge of the investment portfolio and its underlying assets. Comments included training was either too basic or too complex. In addition, the committee members felt that training was not accessible in the event they could not attend a committee meeting.
- Several committee members expressed frustration that information requests that occurred during a committee meeting were not fulfilled timely or at all.

**Potential Risk: Moderate** – The absence of effective and consistent communication between the investment staff and Investment Committee members increases the risk that the effectiveness of oversight may be compromised and committee members may not be aware or full understand key performance metrics.

### **Recommendations:**

1. PERA investment staff, in collaboration with Investment Committee members, should develop a concise reporting template that provides consistent information in advance of each committee meeting. Items on the template should include total portfolio return values as well as return values for each asset class, descriptions of what went well and what did not as well and associated action steps to address areas where performance may not have been up to expectation. In addition, an “Other Business” section should be included to address more infrequent items such as process changes, manager terminations, etc. Lastly, peer rankings of other similarly sized pension funds should be included when feasible to ensure committee members are aware of how PERA is performing compared to others.

2. Investment staff, in collaboration with the Investment Committee, should develop a formal training program that includes key topics regarding the portfolio, strategies, etc. Topics for consideration include:
  - Training on each asset class at a high level and discussion regarding the risk profile, how the assets typically respond to market changes, and other key considerations;
  - Investment Committee responsibilities and oversight roles in accordance with the Investment Policy Statement and best practice;
  - The roles of the vendors who either provide consulting advice or administrative services to the portfolio;
  - How benchmarks are researched, selected and utilized to assess the performance of the portfolio;
  - The manager monitoring process; and,
  - A refresher course on the Investment Policy Statement, how often it is updated, and key areas committee members should be focused on.
3. The program should be re-evaluated annually to ensure key components are included. In addition, a training program should be developed for new Investment Committee members to ensure they have a solid foundation of knowledge regarding the portfolio and its holdings. Investment staff should also consider providing training videos in a more accessible format such as YouTube to ensure Investment Committee members can access the information when it is conducive to their schedule and also be able to reference the training at later dates to assist with understanding.
4. A formal information request process should be implemented to assist with ensuring requests can be tracked and fulfilled timely. Consider infusing a request form onto the Board Portal to make it easily accessible. The form should include the specifics of what is being requested as well as the reason for the request to ensure requests are for legitimate purposes. Guidelines over the timeframe to fill requests should be implemented to ensure expectations are properly managed. Consider having the Investment Committee Chair review and approve the requests to ensure timelines and requests are reasonable.

**Management's Response:** Management agrees and is committed to implementing an auditing procedure to ensure all documentation is completed as needed. We acknowledge the findings in regards to Investment Committee Communication and are dedicated to the mitigation of this risk. Staff will strive to establish a more effective and consistent communication approach going forward. We are committed to the improvement of communication and have begun implementing the concise reporting template requested on a monthly basis. We will endeavor to implement additional training and information request processes to ensure Investment Committee members receive sufficient information in a timely and complete manner. We will target this being resolved by the end of FY 2022 contingent on the Board's acceptability.

## SCOPE AND PROCEDURES PERFORMED

**In order to gain an understanding of the process, we interviewed the following personnel:**

- Dominic Garcia, Chief Investment Officer
- Kristin Varela, Deputy Chief Investment Officer
- Anna Williams, Chief Financial Officer

**In order to gain an understanding of the processes, we read relevant portions of:**

- PERA Investment Policy Statement (IPS) dated December 14, 2017
- PERA Investment Policy Statement (IPS) dated July 26, 2018
- PERA Investment Policy Statement (IPS) dated April 30, 2020

**We performed the following test work:**

***Performance Reporting Timeliness:*** We performed inquiries with PERA Investment staff to determine if managers were repeatedly submitting late performance information to the custody bank. In addition, we obtained the November 2020, December 2020 and January 2021 performance reports and tested to determine:

- The custody bank provided the performance reporting packet within 12 days following month-end; and,
- The investment consultant provided the Flash Report within 15 days following month-end.

***Performance Reporting Accuracy:*** We obtained the internal performance reconciliation summaries for November 2020, December 2020, and January 2021. For the 1, 3, 5, and 10 year performance values, we compared the internal performance reconciliations to the BNY Mellon and Wilshire source data and tested to determine amounts agreed between each report. In addition, we obtained a listing of all basis point variances identified during the September 30, 2020 quarterly reporting period. From the total population of 7 identified, we tested to determine the variance was researched and corrected. Lastly, we obtained an understanding of the process to reconcile market values on the total portfolio and tested to determine if proper controls were in place to catch and resolve errors if identified.

***Performance Objectives Consistency:*** We gained an understanding of the process and controls to monitor manager performance to ensure performance objectives were aligned with stated objectives in the IPS and manager contract.

***Benchmarks Changes and Approvals:*** We compared the April 2020 Investment Policy Statement against the 2018 and 2017 IPS to determine if there were changes to benchmarks. For the 9 changes identified, we tested to determine the change was done in collaboration with the Investment Consultant and presented to the Investment Committee for informational purposes at the meeting following the change.

***Investment Committee Communication:*** We performed interviews with the Investment Committee and gained an understanding of the investment performance communication process including the content provided in the Investment Committee packets as well as the training provided, to determine if effective processes were in place to ensure relevant and timely investment information was delivered.

\* \* \* \* \*

This report is intended for the information and use of the PERA management, the audit committee, members of PERA's Board and others within the organization.

We discussed and resolved other minor observations with management and received excellent cooperation and assistance from PERA during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico  
July 30, 2021

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# Public Employees Retirement Association of New Mexico

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*Years of Service*  
*Internal Audit*  
*February 2021*

**REDW**<sup>LLC</sup>  
CPAs | Advisors

**Public Employees Retirement Association of New Mexico**  
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# **Public Employees Retirement Association of New Mexico Internal Audit Years of Service Report**

## **INTRODUCTION**

We performed the internal audit services described below solely to assist the New Mexico Public Employees Retirement Association (PERA) in evaluating the process and internal controls relating to the award and verification of active member's service credit. Our services were conducted in accordance with the Consulting Standards issued by the American Institute of Certified Public Accountants, and the terms of our Professional Services Contract agreement for internal audit services. Since our procedures were applied to samples of transactions and processes, it is possible that significant issues related to the areas tested may not have been identified.

Although we have included management's responses in our report, we do not take responsibility for the sufficiency of these responses or the effective implementation of any corrective action.

## **PURPOSE AND OBJECTIVES**

In December 2020, PERA implemented a new service credit calculator to increase the accuracy within the service credit calculation process. Through the process, management worked with a contractor to identify various situations where the prior calculator was experiencing errors and worked to identify and enhance validation rules to improve the accuracy of service credit balances. The calculator was used on a majority of active member accounts to correct any miscalculated prior service.

Our internal audit focused on evaluating the controls in place to ensure service credit balances that were impacted by the implementation were properly reviewed and a post-implementation plan was in place to identify potentially high risk errors in the overall implementation. In addition, we tested to determine if the controls in place over service credit purchases appeared to be functioning.

## SCOPE AND PROCEDURES PERFORMED

**In order to gain an understanding of the processes and operations, we interviewed the following personnel:**

- Greg Trujillo, Acting Executive Director
- Melinda Marquez, Member Services Bureau Chief
- Jessica Perea, Quality Assurance Analyst

**In order to gain an understanding of the processes we read relevant portions of:**

- PERA Service Credit Purchase Agreement form and related instructions
- PERA Member Handbook

**We performed the following procedures:**

- ***Service Credit Calculator Implementation:*** We gained an understanding of the process both pre and post-implementation of the service credit calculator that PERA implemented to ensure service credit changes were accurate. We obtained the service credit validation rule testing report from September 2020 that included all changes that were to occur with the implementation of the service credit calculator. We also obtained the December 2020 report listing all changes that occurred as a result of the calculator. We compared the two reports to verify if pre and post implementation changes appeared to materially reflect one another.

From a total population of 27,395 member balances that had changes, we randomly selected a sample of 40 members. For each sample, we determined that:

- Service credit balance listed in the member account in RIO agreed with validation rule report.
- The reason for the credit change matched what was updated in the member account and appeared reasonable based on the hours or wages reported.
- The change listed in the September and December 2020 report agreed.

Utilizing the December 2020 report, we then isolated all service credit changes greater than one year that occurred as a result of the implementation. From a total population of 640, we selected 5 and tested to determine if the change was accurate.

- ***Service Credit Purchases:*** We obtained a report of service credit purchases between January 1, 2020 and December 31, 2020. From a total population of 362 purchases, we selected 20 and tested to determine:
  - Service credit amount purchased and the cost of the purchase agreed to the computation for purchase amount;
  - Payment was received prior to adjustment of the member's account;
  - Service credit posted to the member's account agreed to the service credit purchase agreement; and,
  - For instances in which purchase included previously withdrawn service, the member worked during the original service credit period that was purchased;

In addition, for a selection of 5 purchases from the above sample of 20, we recalculated the service credit purchased and determined that the recalculation agreed to the amount paid.

## **OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

During the course of the audit, we identified processes that appeared to be functioning well. The service credit purchase process appeared to be functioning in accordance with PERA policies. As a result of our testing, REDW identified the following observation:

### ***1) Service Credit Calculator Post-Implementation Testing***

In December 2020, PERA implemented a new service credit calculator to increase the accuracy of service credit calculations on member accounts after inaccuracies were discovered in the previous software. From 2018 to 2020, PERA performed preliminary testing to determine if the calculator appeared to be updating member balances correctly and once confidence was obtained that the calculator was performing, full implementation occurred. During our testing over this process, we inquired regarding what validation and monitoring was performed post-implementation to ensure service credit balances were correct. While some limited initial post-implementation validation had occurred, there was no consistent process in place to determine if service credit changes were appropriate nor was documentation maintained for what validation had occurred to ensure duplicate reviews were not performed.

Since the internal audit was conducted at implementation, management was able to update internal processes to conduct validation and monitoring over changes.

**Potential Risk: Moderate**—The absence of monitoring to ensure changes to service credit balances are accurate post-implementation could result in errors not identified. Since this internal audit was performed in concurrence with implementation, PERA was able to implement ongoing monitoring.

**Recommendation:** Based on discussions during post-implementation, it was identified that a monthly review process needed to be put in place over changes. PERA developed a process to review changes on a monthly basis with a specific focus on changes greater than 6 months. In addition, PERA implemented procedures to spot check at least one account with changes under 6 months to capture potential errors/reasons. We recommend PERA continue to perform monthly reviews over changes to service credit balances and document all resolutions identified.

**Management's Response:** Management agrees with the recommendation and has updated our internal process to review and monitor changes in service credit. Currently, the Quality Assurance Bureau continues to test any new service credit mismatches identified by the 5.018 DQCP report which runs the first week of every month. If issues are found with the service credit code, helpdesk tickets are created to rectify the issues. Also, member services utilize data reports to validate service credit within RIO when completing members requests. A service credit change report is also reviewed daily and documented in members account to support the change. Any concerns or discrepancies detected on data quality are forward to the Quality Assurance Bureau for review.

\* \* \* \* \*

This report is intended for the information and use of the PERA management, the audit committee, members of PERA's Board and others within the organization.

We discussed and resolved other minor observations with management and received excellent cooperation and assistance from PERA during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico  
June 2, 2021