



INVESTED IN TOMORROW.

## **Audit & Budget Committee Meeting**

Senator Fabian Chavez Jr. Board Room  
PERA Building • 33 Plaza La Prensa • Santa Fe, NM 87507

**Tuesday, December 10, 2019**

After SmartSave Committee

### **Committee Members**

Dan Mayfield, Chair

Jackie Kohlasch, Vice Chair

Tim Eichenberg

David Roybal

Loretta Naranjo Lopez

### **AGENDA**

**1. Call to Order**

**2. Roll Call**

**3. Approval of Agenda**

**4. Approval of Consent Agenda**

**5. Current Business**

**A. PERA Census Data Internal Audit Report**

Informational

Jessica Bundy, CPA, Principal;  
Cait Gutierrez, CPA, Internal  
Audit Manager, REDW

**6. Adjournment**

---

### **Consent Agenda**

Approval of Minutes of September 10, 2019 Audit & Budget Committee Meeting

Any person with a disability who is in need of a reader, amplifier, qualified sign language interpreter, or any other form of auxiliary aid or service to attend or participate in the hearing or meeting, please contact Trish Winter at 476-9305 at least one week prior to the meeting, or as soon as possible. Public documents, including the agenda and minutes, can be provided in various accessible formats. Please contact Ms. Winter if a summary or other type of accessible format is needed.

---

# Public Employees Retirement Association of New Mexico

---

*Census Data and Employer Payroll  
Internal Audit  
August 2019*

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

**Public Employees Retirement Association of New Mexico  
Internal Audit  
Census Data and Employer Payroll**

**Table of Contents**

	<u>Page</u>
INTRODUCTION.....	1
PURPOSE AND OBJECTIVES.....	1
SCOPE AND PROCEDURES PERFORMED.....	1
OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES.....	3
PROCESS IMPROVEMENT OPPORTUNITIES.....	4

# **Public Employees Retirement Association of New Mexico Internal Audit Census Data and Employer Payroll Report**

## **INTRODUCTION**

We performed the internal audit services described below solely to assist the Public Employees Retirement Association of New Mexico (PERA) in the process and internal controls relating to census data and contributions. 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.

## **PURPOSE AND OBJECTIVES**

Our internal audit focused on evaluating processes and procedures related to the collection, updating, and maintenance of member information. We assessed the accuracy and timeliness of employer contributions, as well as monitoring controls for data changes and procedures performed for data cleansing project.

## **SCOPE AND PROCEDURES PERFORMED**

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

- Greg Trujillo, Deputy Executive Director
- Anna Williams, Chief Financial Officer
- Ron Gallegos, Chief Information Officer
- Jessica Perea, User Administrator Supervisor
- Aji Lopez, Contribution Accounting Manager
- Gabriel Baca, PERA Records Custodian

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

- PERA Member Handbook, 2017
- Contribution Accounting: Request for Employer Summary Report (July 24, 2018)
- Physical Interface: Employer Reporting File
- E-Bill Instructions
- PROCEDURES for Membership Application, Employee Exclusion and Beneficiary Designation Forms

**We performed the following testwork:**

*Census Data Analysis:* We analyzed the June 30, 2019 census database of active members (60,061 members) for items that appeared unusual and identified the following:

- 44 missing first name
- 1,112 having no address
- 145 with no gender
- 179 with no DOB
- 38 with a DOB after the DOH
- 8 with no DOH
- 762 members younger than 16 years of age at DOH
- 91 members with a DOB prior to 1901

From those members with unusual items identified, we selected a sample of 100 members with missing information and/or discrepancies, and tested to determine if information from the membership application was adequately reflected in the member's account and census data. Additionally, we obtained an understanding of what data had been deemed critical in the data clean-up efforts. We then analyzed our sample and determined if the reduction in errors supported this prioritization or an action plan was in place for the remaining items identified.

*New Employees:* Utilizing the census data obtained as of June 30, 2019, identified 15,497 members with a hire date from July 1, 2017 to June 30, 2019. From the listing of new members, selected 150 and tested:

- Demographic information on the member's accounts (name, SSN, gender, etc.) agreed to the census;
- Spousal information on the member's accounts (marriage status, spousal information, etc.) agreed to the census;
- Employer information on the member's accounts (name, salary, DOH, position, etc.) agreed to the census;
- All information included on the membership application form was properly reflected in the member's accounts in RIO; and,
- Application was received from the employer within 30 days of the employee hire date.

**Changes to Member Account Data:** Analyzed census demographic information between periods ending June 30, 2018 and June 30, 2019, to determine if changes to data were adequately supported. We selected a sample of 111 changes (stratified based on the population of the change made from a population of 11,891 changes) and we tested that documentation was on file to support the change.

**Employer Payroll:** Obtained a list of all employers and selected a sample of 10. For the 10 employers, we selected three pay periods between July 1, 2018 and June 30, 2019, and five employees from each for a total of 150 items tested. We tested to ensure that:

- Demographic information (name, SSN) on payroll upload file agreed to member account;
- Employer information (name, retirement plan) on payroll upload file agreed to member account;
- Pay rate included in the payroll upload for the pay period tested agreed to the member account;
- Employer contributions recalculated based on wages from payroll upload and plan percentage;
- Employee contributions recalculated based on wages from payroll upload and plan percentage; and,
- Contributions were included in the member's account.

**Data Cleansing:** Obtained an understanding of the data cleansing efforts performed by PERA on census data and performed the following:

- Reviewed listing of reports created and assessed if there are additional reports that could be beneficial to address discrepancies identified;
- Assessed progress of occurrences identified for reports utilized by Contribution Accounting and Records and Imaging to determine if significant progress has been made in clearing discrepancies identified;
- Obtained an audit log of validation codes changes and ensured they appeared to be appropriate; and,
- Selected ten employers and tested an FLSA hours validation rule to determine that the hours reported under the plan code did not exceed maximum allowable hours for one pay period.

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

During the course of the audit we identified areas in which processes and related controls appeared to be functioning properly, most noticeably were the areas related to payroll uploads where the new e-bill system appears to be working properly and hours reported under plan codes not exceeding maximum specified FLSA validation parameters. Additionally, it appears PERA has made significant progress in identifying missing and unusual information within member accounts and making necessary corrections.

As a result of our testing, REDW did not identify any observations.

## **PROCESS IMPROVEMENT OPPORTUNITIES**

REDW identified the following process improvement opportunity:

### ***VALIDATION CODES***

PERA has reviewed and modified validation codes to suspend certain data errors and not allow them to process until corrected. Our testing did not identify any inaccurate code changes. The codes can be moved from suspended to flagged and there does not appear to be a formal approval process in place to make this change. Without a formal sign-off approving the change from suspended to flagged, there is a risk that inaccurate data will be processed. A process should be implemented to formally approve a validation code change made to update it to flagged status.

\* \* \* \* \*

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  
November 15, 2019

**NEW MEXICO**  
**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**  
**AUDIT & BUDGET**  
**COMMITTEE MEETING**  
**September 10, 2019**

This meeting of the Public Employees Retirement Board Audit & Budget Committee was called to order by Chair Dan Mayfield at approximately 9:30 a.m. on the above-cited date at the PERA Building, Senator Fabian Chavez, Jr. Board Room, 33 Plaza la Prensa, Santa Fe, New Mexico.

A quorum was established with the following members present:

**Members Present:**

Dan Mayfield, Chair  
Jackie Kohlasch, Vice Chair  
David Roybal  
Loretta Naranjo Lopez

**Member(s) Absent:**

Tim Eichenberg

**Other Member(s) Present:**

Maggie Toulouse Oliver  
Lawrence Davis  
Shirley Ragin

**Staff Members Present:**

Wayne Propst, Executive Director  
Susan Pittard, Chief of Staff/General Counsel  
Dominic Garcia, Chief Investment Officer  
Greg Trujillo, Deputy Director  
Renada Peery-Galon, Administrative Services Director  
Trish Winter, Executive Assistant  
Karyn Lujan, SmartSave Plan Manager  
Anna Williams, Chief Financial Officer  
LeAnne Larrañaga-Ruffy, Director of Equity  
Joaquin Lujan, Investment Division  
Ron Gallegos, Chief Information Officer

**Others Present:**

Jessica Bundy, REDW  
Lenora Chavez, Retiree

**2. APPROVAL OF AGENDA**

Mr. Roybal moved to approve the agenda. Ms. Naranjo Lopez seconded and the motion passed.

**3. APPROVAL OF CONSENT AGENDA**

Mr. Davis moved to approve. Dr. Kohlasch seconded and the motion passed. Ms. Naranjo Lopez abstained.

**4. CURRENT BUSINESS**

**A. Outstanding Internal Audit Observation Report**

Jessica Bundy, REDW, said that these observations close out the internal audit cycle. At the previous meeting, the audit plan was approved. The internal audit was performed according to the approved plan. A current status from management on the observations is obtained and when management believes the observation is resolved, REDW performs limited procedures/testing over the observation to ensure the process has changed.

Ms. Bundy said 10 out of the 19 outstanding observations were resolved. Five of the observations were from 2018 audit and five from 2015. She said the focus is to clear out the oldest ones as much as possible to make sure those are moving on. It was good follow-up and management worked to resolve the issues.

Referring to the nine unresolved observations, Ms. Bundy noted five were from 2018, two from 2016 and two from 2015. Ms. Bundy reviewed the unresolved observations and noted that service credit report which found a lack of controls over active members' service credit balances is an issue that will require additional time. Management has responded that the RIO build out should be completed and monitoring should address the issue. Regarding the observations of 2015 about member training, Board policies and committee charters, Ms. Bundy said these issues are being addressed but are not yet resolved.

Mr. Roybal asked about the IT draft policies, and Ron Gallegos, Chief Information Officer, said that prior to the audit there were no official policies in place. There are now draft policies that apply to the current infrastructure and will need to be updated as the new production system comes on line. The intent of the policy will not change; however, the language and how it applies to the new system will be addressed.

Referring to the imaging records documentation that is listed as an unresolved observation, Ms. Naranjo Lopez asked whether PERA would be using NextRequest, which Albuquerque uses. Ms. Bundy said the observation has to do with an internal process and the manner in which records and imaging communicates with internal departments. The audit reveals some responsibility confusion.

Ms. Naranjo Lopez requested that documents be available on line. Deputy Director Trujillo said the observation has to do with member records which are

confidential and cannot be placed online. However, if there are records that should be more accessible, he offered to review that.

Ms. Naranjo Lopez said she was really concerned about miscalculations regarding benefits. She mentioned a member who was required to pay the system back \$9,000 because of a RIO error. Mr. Trujillo said RIO recently underwent a \$4.2 million revamp. The upgrade should extend the life of RIO an additional 10 years. Part of the RIO upgrade included the introduction of an Ebill process which requires a reconciliation before payment is forwarded to PERA. While late reporting continues to be an issue, accuracy is greatly improved. The assessment of late reporting penalties is anticipated soon.

Ms. Bundy pointed out that the records/imaging observation to which Ms. Naranjo Lopez is referring occurred in October 2016, and since then there has been improvement. Mr. Trujillo said the revised service credit calculator has not yet been fully implemented, and once it is, the manual adjustments will no longer be necessary.

Ms. Naranjo Lopez stated that PERA should look at the benefits given in each plan, and opined that if they were fair and equitable across the board, the benefits would be easier to calculate.

**5. OTHER BUSINESS**

Mr. Trujillo introduced Ron Gallegos as PERA's Chief Information Officer.

**6. ADJOURNMENT**

Having completed the agenda, and upon motion and second, Chair Mayfield adjourned this meeting at approximately 9:50 a.m.

Approved by:

---

Dan Mayfield, Chair  
Audit & Budget Committee

ATTEST:

---

Wayne Propst, Executive Director