



INVESTED IN TOMORROW.

Audit & Budget Committee Meeting

Meeting via Zoom

Tuesday, December 14, 2021
following SmartSave Committee

Committee Members

Diana Rosales Ortiz, Chair
Lawrence Davis, Vice Chair
Claudia Armijo

Loretta Naranjo Lopez
John Melia

AGENDA

- 1. Call to Order**
- 2. Roll Call**
- 3. Approval of Agenda**
- 4. Approval of Consent Agenda**
- 5. New Business**
 - A.** Internal Audit Report –Information Technology Report Informational Caitlin Gutierrez, CPA, REDW
 - B.** FY21 Budget to Actual Statement Informational Anna Williams,
 - C.** FY22 Budget Projections through 11/30/2021 Informational Deputy ED/ASD Director
 - D.** Memo of Continuity Informational Anna Williams
- 6. Adjournment**

Consent Agenda

August 10, 2021 Audit & Budget Committee Minutes

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 (505) 795-0712 or patriciab.winter@state.nm.us 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

*Information Technology
Internal Audit
August 2021*

REDW^{LLC}
CPAs | Advisors

Public Employees Retirement Association of New Mexico
Internal Audit
Information Technology

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Budget And Actual for Year Ended June 30, 2021

<i>Category</i>	<i>Category Description</i>	<i>Beginning Budget</i>	<i>Adjusted Budget</i>	<i>Total Expenditures</i>	<i>Variance</i>
200	<i>Personnel services and benefits</i>	8,197,800	8,197,800	7,721,948	475,852
300	<i>Contractual services</i>	26,306,800	32,156,800	30,421,847	1,734,953
400	<i>Other operating costs</i>	1,718,900	2,068,900	1,820,971	247,929
Total		36,223,500	42,423,500	39,964,766	2,458,734

200 Category – Personnel Services and Employee Benefits

- For personal services for fiscal year end June 30, 2021, PERA had total expenditures of \$7.7 million.

300 Category – Contractual Services

- For Contractual services for fiscal year end June 30, 202, PERA had total expenditures of \$30.1 million.

400 Category – Other

- For Other Operating Costs for fiscal year end June 30, 2021, PERA had total expenditures of \$1.8 million

Any funds not expended they revert to the Trust Fund.

PERA Fiscal Year 2022 November 30, 2021 Budget Projection

Category	FY22							
	Beginning Budget	Budget Adjustment Requests/Special	Adjusted Budget	Expended Year-To-Date	Encumbered Year-To-Date	Projected Expenditures to Year End	Total Projected Expenditures	Projected Variance
200	8,330,500	0	8,330,500	3,111,720	-	4,983,799	8,095,519	234,981
300	25,968,800	0	25,968,800	5,401,832	18,875,755	1,691,213	25,968,800	(0)
400	2,038,800	0	2,038,800	894,729	504,141	696,870	2,095,740	(56,940)
Total	36,338,100	-	36,338,100	9,408,281	19,379,896	7,371,882	36,160,059	178,041

200 Category – Personnel Services and Employee Benefits

- As of November 30, 2021 PERA had 9 vacant positions and an FTE vacancy rate of 10.3 percent.
- PERA's Fiscal Year (FY) 2022 operating budget has a budgeted vacancy rate of 6.3 percent.

300 Category – Contractual Services

- The Contractual Services category includes \$21.6 million in Investment contracts for consultants and money manager fees. The investments team continually reviews investments performance fees on PERA's investment manager.

400 Category – Other

- The 400 category includes \$254,600 in Department of Information Technology and General Service Department fees for transportation insurance, state transportation pool charges, property insurance, information processing services, human capital management and telecommunications. The current budget shortfall in the projection is related information Technology (IT) maintenance cost increasing and building maintenance, however ASD will monitor the 400 category for potential savings in other areas.

INVESTED IN TOMORROW.

MEMORANDUM

DATE: December 14, 2021

TO: Audit & Budget Chair for 2022

FROM: Anna Williams, CPA, Deputy Director and Diana Rosales-Ortiz Audit & Budget Chair

SUBJECT: Memo of Continuity

The following are the items that the Audit and Budget Committee worked on and completed last year:

- Reviewed the operating budget before it went to the full board.
- Presented the recommendations of AG, OSA and the internal auditors and worked on resolving the following items.
 - Resolutions
 - NMAC updates
 - Board Governance – create board self-evaluation
- Conducted a presentation on the oversight agencies of PERA.
- Conducted a presentation on Contribution improvements and E-Bill.
- Updated the audit and budget charter.
- Reviewed the appropriation request before it went to the full board.
- Presented and reviewed the following internal audits.
 - Year of Services audit
 - Investment Performance Reporting audit
 - Information Technology audit

Work in progress

- Presentation on the retirement and refunds processes.
- Review the scope of work for Internal Audit RFP.
- Work on collaboration and communication with Investment team.
- Potentially review the scope of work for Fiduciary Counsel RFP.

Also, PERA is working on hiring a new CFO who will be hired sometime in calendar year 2022, once a qualified candidate is found.



New Mexico
Public Employees Retirement Association
Audit and Budget Committee Meeting
Tuesday, August 10, 2021

1. Call to Order

This meeting of the New Mexico PERA Audit and Budget Committee was held on the date cited above via Zoom tele/video conferencing. Vice Chair, Lawrence Davis, called the meeting to order at approximately 1:14 p.m.

2. Roll call.

The meeting attendance met quorum with the following members present;

Committee Members Present

Lawrence Davis, Vice Chair
Loretta Naranjo Lopez
Paula Fisher *appointed for this meeting*

Committee Members Absent

Diana Rosales-Ortiz, Chair
John Melia
David Roybal

Other Board Members Present

Francis Page

Staff

Greg Trujillo, Acting Executive Director
Susan Pittard, General Counsel
Trish Winter, Executive Assistant
Anna Williams, CFO
Kristin Varela, Interim CIO

Others in Attendance

Caitlin Gutierrez, REDW

3. Approval of Agenda

Loretta Naranjo Lopez moved to approve the agenda. Paula Fisher seconded the motion. The motion passed with a unanimous roll call vote as follows;

Lawrence Davis	Yes
Paula Fisher	Yes
Loretta Naranjo Lopez	Yes

4. Approval of Consent Agenda [Exhibit 1]

Paula Fisher moved to approve Consent Agenda. Loretta Naranjo Lopez seconded the motion. Motion passed with a unanimous roll call vote as follows;

Lawrence Davis	Yes
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Paula Fisher Yes
Loretta Naranjo Lopez Yes

5. New Business

A. FY 23 Draft Appropriation Request [Exhibit 2]

Anna Williams, ASD Director/CFO gave an overview of the FY 23 appropriation requests and stated that these numbers are subject to change. PERA has received the DFA rates, the audit HTM, but have not yet received the health insurance rate, which may or may not increase and affect the 200 categories.

Currently, there is an increase of approximately \$40,000, or 0.5%, to personal services and benefits. This is related to the reduced vacancy rates from 6.3% in FY 21 to 3% in FY 23 requests. The 0.5% increase also has to be factored in in the PERA contribution in FY 23.

In the 300 category, there is an increase of approximately \$2.3 million or 9% in contractual services. This increase is related to the investment fee activity, which is generated through the higher balances.

An increase of approximately \$1.4 million, or 75%, was seen in the 400 category. This is related to the anticipated move of contracts from the 300 to the 400 category.

Details were requested on the concept of assets under management and why the fees were increasing. Interim CIO, Kristin Varela, explained that PERA's assets under management from June 30, 2020, to June 30, 2021, had grown by \$2.8 billion. This reflects the 24% return marked for the last year with the market rally that's occurred.

Ms. Varela further stated that that is not a reflection of the fees increasing. It is because the market volume against which those fees are calculated is now higher. She added that this is the right problem to have when experiencing that growth and paying for the growth is part of the business.

Ms. Naranjo Lopez noted that the math doesn't add up if there was a 24% return. She felt that the growth should have been \$3 billion instead. Ms. Varela explained that PERA closed June 30, 2020, at a \$14.8 billion net asset value (NAV). This was right off the March 30, 2020 market decline where the fund was at negative 1.5%. Currently, the books closed June 30, 2021, at a \$17.6 billion NAV, net of fees, and distributions out to the plan. \$600 million had also been distributed out in benefit payments. When all this is equated and adjusted for the benefit payments and cash flows, it equates to a 24% net return for the plan. Details of this will be provided at the Investment Committee at the end of the month.

Ms. Naranjo Lopez requested to have a breakout of the information for every quarter since inception.

B. Internal Audit Report – Investment Performance Report *[Exhibit 3]*

Caitlin Gutierrez, CPA with REDW, reported that they had done the investment performance reporting internal audit, a process they have done several times before. This time the focus was on the timeliness of the process and the accuracy, with more emphasis on how the Investment Committee communication was going. This was to ensure that the fiduciaries of the fund were receiving good communication, that they understood the information, and that the training was there.

Ms. Gutierrez reported they had one observation in total on the Investment Committee communication. They had performed interviews with all of the Investment Committee members to look at the trends, how the members are feeling, and what's going on.

Committee members had expressed several different frustrations. One, that the information in the packets was not clear, concise, or easy to understand. The members had to therefore spend a lot of time trying to find and understand the important pieces when preparing for the meetings. Since most of the committee members have full-time jobs and other obligations, dedicating that amount of time became challenging.

Two, committee members felt that the internal training provided was not adequate to ensure thorough knowledge of the investment portfolio and its assets. It was also not accessible in the event they could not attend the committee meetings. They, therefore, asked if the training videos could be posted on YouTube or other forums where they could go back for reference.

The third and final frustration was that information requests that occurred during a meeting were not fulfilled. REDW, therefore, put this risk at moderate again and gave out several recommendations, which are outlined in the audit.

Ms. Gutierrez reported that management had agreed and committed to implementing and auditing procedures to ensure that documentation is completed as needed. They are dedicated to the mitigation of this risk and are working to establish a more effective and consistent communication approach going forward. Different communication tactics have already been implemented to help bridge that gap. Management is also going to endeavor to implement additional training and incoming information request processes to make sure that members are receiving sufficient information timely and completely. This, they are targeting to be resolved by the end of Fiscal 22.

Ms. Naranjo Lopez expressed concerns that she had found numerous ethics violations that did not seem to apply to the internal audits, which she felt should apply. She also felt that the committee should carefully look at the legislator who was giving money to APS through a bogus company as that indicated that oversight was not happening.

Ms. Naranjo Lopez further requested a more thorough evaluation, especially on the checks and balances.

Ms. Gutierrez stated that she had not received any formal ethics complaints from Ms. Naranjo Lopez. She explained that that might have been due to them being flagged by their firewall, so she would check again.

Vice Chair Davis expressed concerns that information relayed by the investment team to the Board might be inaccurate. This was a major concern for a \$17 billion fund. He indicated that they had recalculated some of the ratios in the reports and found them to be inaccurate.

Ms. Gutierrez addressed this concern and stated that in the audit, they had looked at the possibility of the PERA staff manipulating the data to make a return seem better. They compared across the forced data and tested the controls, and found no high instances where data could be manipulated.

The risk of possible manipulation came in at the point of presenting the investment committee packets to the Board. The forced data could be embedded deep in the packets to make it hard for the Board members to find. At this point, staff might decide to only talk about the good parts.

This is where REDW identified a breakdown in reporting and that there was no good reporting template to ensure that the Board is getting all the information, whether good or bad. They, therefore, came up with the recommendation of having a reporting template to ensure the Board is getting all the necessary information.

Vice Chair Davis also asked if, during the audit, REDW reviewed videos from previous meetings to determine whether members had information requests that had not been fulfilled.

Ms. Gutierrez confirmed that during the interviews, they had received correspondence that some requests went for a very long time without being fulfilled. She stated that they had reviewed about four or five Investment Committee meeting videos to determine what the response was like when requests were put out and if they had been fulfilled.

Ms. Gutierrez further stated they had asked several Committee members to provide documentation of where they had made requests. They only got one document back. They used that one to determine that the Board felt that they were not being communicated with properly.

She also reiterated that REDW had reviewed the information, tested it, and had some inquiries to find out why requests were not being fulfilled. This led them to recommend a better tracking system where someone fills out a request form that they can then be able to follow up on.

In response to Mr. Davis' concern of data manipulation, Ms. Gutierrez stated that it would be hard to prove if there was intentional manipulation of data. What they had found out was that there was an overloading of information in an unclear format. This could have been the root cause of the Board members feeling that manipulation of data was happening.

Ms. Gutierrez emphasized that to avoid these doubts, there needs to be better collaboration so that Board members understand what is being presented to them.

C. REDW Follow-up Report [Exhibit 4]

Ms. Gutierrez stated that every year, they do a follow-up on all the outstanding internal audit observations throughout the year. This is not a full re-audit of an area. It entails checking to see the controls put in place and doing some small testing of a sample to make sure the controls align with what is being said. The aim is to look for controls that things have changed in the process to correct the errors that had been identified.

A follow-up audit also ensures that the older observations are getting resolved.

Ms. Gutierrez reviewed the resolved observations within the 2021 PERA Follow Up Report

Unresolved Observations.

Ms. Gutierrez reported that most of these observations are recent. Anything issued within the past year should not be expected to be resolved as most of the issues take time. She outlined them as follows;

1. Governance and IPF internal audit. Ms. Gutierrez stated that Chair Page gave some responses on how the Board is tackling these issues. Those responses are as follows;
 - a. Communication decision making. The Board is working with executive management to discuss the development of the strategic planning process which will help establish the goals and objectives for PERA and developing those annual work plans.
 - b. Conducting administrative rulemakings during calendar year 21, recommending amendments to establish the governance committee as a standing committee that will oversee and monitor compliance with policy and procedure, development and code of conduct and complaints procedure, review of member complaints, and refer to the Board any disciplinary action. They're anticipating that to be running for testing by the end of the next fiscal year.
 - c. Nonfinancial conflict of interest reporting. This is where the governance committee would oversee compliance with this and would be responsible for investigating this and determining those non-financial conflicts of interest as well.
 - d. Board member compliance book. This is going to be a centralized location tracking all required forms that must be submitted by the Board, and conflicts of interest that need to be opined on, and education tracking for the required education. These are currently in the process of being developed.
 - e. Annual evaluation of the Board. The Board is still working on developing that process of the Board and Committee evaluation. The self-evaluation forms are scheduled to be presented either at the September meeting or at the Board retreat.

- f. Annual evaluation of the Executive Director. The plan is to evaluate the interim Executive Director, then the annual evaluation will happen once the E.D is appointed.
- g. Board policy document and charters. The requirements will be added to the Board calendar so that all committee members are aware of when things need to be updated to make sure that they are current per the Charter.
- h. Lack of IT policies and procedures. Several policies and procedures had been implemented, but REDW observed that the hardware and software inventory policy had not been developed.

The PERA team felt that this was an automated process and therefore did not require the policy. However, REDW determined that it should be in place and left that issue unresolved.

5.D. Updated Audit & Budget Committee Charter *[Exhibit 5]*

Ms. Williams presented an updated Audit and Budget Committee charter and reported that information on generally accepted accounting practices had been added to the charter.

Under Section 3, the meeting had been changed from twice a year to four times a year. There was also some additional information under Section 4, pertaining to the operating budget in the April review, and appropriation requests in the August review.

The review of the Audit and Budget Committee Charter had also been added, along with the internal audit reports presented and reviewed by the Audit and Budget Committee, as issued by the CPA.

Additional information under Section 5 pertains to having a transition memo in the RSM budget charter so that when a new Chair takes over, there is a memo from the former Chair.

In response to a question from Ms. Naranjo Lopez, Ms. Williams explained that they have to present the operating budget in April because it is due on May 1 and present the appropriation request in August because it is on September 1.

Loretta Naranjo Lopez moved to approve Committee Charter. Paula Fisher seconded the motion. Motion passed with a unanimous roll call vote as follows;

Lawrence Davis	Yes
Paula Fisher	Yes
Loretta Naranjo Lopez	Yes

6. Adjournment

With no further business to discuss, Vice Chair Davis adjourned the meeting at approximately 2:10 p.m.

Approved by:

Lawrence Davis, Vice Chair, Audit & Budget Committee

ATTEST:

Greg Trujillo, Executive Director

Attached Exhibit(s):

Exhibit 1: August 2021 Consent Agenda

Exhibit 2: FY23 Draft Appropriation Request

Exhibit 3: Internal Audit Report – Investment Performance Report

Exhibit 4: REDW Follow-up Report 2021

Exhibit 5: Updated Audit & Budget Committee Charter