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PERA
Public Employees
Retirement Association
of New Mexico

INVESTED IN TOMORROW.

Audit & Budget Committee Meeting
Senator Fabian Chavez Jr. Board Room
PERA Building • 33 Plaza La Prensa • Santa Fe, NM 87507

Tuesday, September 10, 2019
After SmartSave Committee

Committee Members

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

AGENDA

1. **Call to Order**
2. **Roll Call**
3. **Approval of Agenda**
4. **Approval of Consent Agenda**
5. **Current Business**

    A. Outstanding Internal Audit Observation Report   Informational   Jessica Bundy, CPA, Principal; REDW

6. **Adjournment**

Consent Agenda
Approval of Minutes of June 11, 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.

Follow-up on Outstanding Internal Audit Observations
Resolved Observations
As of June 2019

Audit Date	Audit Report	Observation	Risk Level	Management Response	Follow-up Procedures Performed
May 2018	Organizational Communication and Efficiencies	Policies and Procedures	Low	Procedures for Contribution Accounting were updated by the Contribution Accounting Manager and approved by the Chief Financial Officer.	REDW had previously obtained Payroll policies and procedures. REDW obtained the following updated procedures for Contribution Accounting, all of which were dated. -Contribution Accounting: Processing Optional Service Credit Payment procedures, updated 2/13/19. -Contribution Accounting: Creating New Organization Accounts in RIO procedures, updated 3/22/19. -Contribution Accounting: Un-Remitted Contributions, updated 2/20/19. As the Records/Imaging observation is addressed in an unresolved observations for Organizational Communication and Efficiencies: Records/Imaging Documentation Requirements, we will consider this observation resolved.
May 2018	Investment Performance Reporting	Internally prepared Executive Summary did not agree to Wilshire Flash Report	Low	Related to this specific report, PERA will seek to eliminate this report from the monthly deliverables that are provided to the Board of Trustees. This report serves as a simple replication of information that is already audited by multiple parties and provided to the Board of Trustees monthly, such as Wilshire's monthly Flash Report. Staff believe a manual replication of reporting is inefficient and will seek to utilize the audited information as a primary source of documentation when reporting performance results to the PERA Board of Trustees.	REDW obtained an understanding from Kristin Varela, Deputy Chief Information Officer, that the Executive Summary was eliminated from the reporting deliverables following the conclusion of the internal audit. As this report is no longer being prepared for the Board, we will consider this observation resolved.
February 2018	Information Technology	Workstation Security	High	PERA has created a Workstation Security Worksheet with a list of all employees' computers with the REDW recommendations listed out. PERA's IT staff has reviewed all employee computer workstations for security vulnerabilities and documented findings. Periodic workstation reviews will be conducted every six months.	REDW obtained documentation of the first Workstation Security Worksheet completed April 2018 and determined that workstation reviews had been completed, signed off, and approved by IT staff.

Audit Date	Audit Report	Observation	Risk Level	Management Response	Follow-up Procedures Performed
February 2018	Information Technology	Computer Security Incident Response Plan	Moderate	PERA currently has a Computer Security Incident Response Plan. PERA's CIO will update the Plan. The Office of General Counsel and Executive Director will review and approve the updated plan. Once, the CSIRP has been approved it will be properly implemented and communicated to staff by the CIO. PERA is working to revise, approve and implement the CSIRP by June 15, 2018.	REDW obtained the updated Computer Security Incident Response Plan and the updated Computer Security Incident Response Team policy and determined that it was reviewed and approved on June 14, 2018 by the CIO, General Counsel and the Executive Director.
February 2018	Information Technology	Business Continuity Plan Not Updated	Low	PERA currently has a Business Continuity Plan. PERA's CIO will work with individual areas and confirm business requirements and update the Plan. After, the Business Continuity Plan has been properly approved the CIO will implement and test it by June 30, 2018.	REDW obtained a copy of the updated Business Continuity Plan that was approved by the Executive Director on July 2, 2018 and determined that it contained updated processes and identified the recovery team in the event of a disaster recovery situation.
September 2015	Governance, Fiduciary Responsibility, and Training	Forms of Communication and Retention of Related Documentation	High/Moderate	Management concurs that Board Members should be assigned PERA email addresses to be used to conduct PERA business. This was not an option in the past; however, we now have the capability to administer Board email addresses. Annual training on the Open Meetings Act, Public Records Act and the Inspection of Public Records Act would also be beneficial to both the Board and staff; as such Management will work with the Board to schedule these trainings within the first quarter of 2016. The board agrees with management and PERA emails will be given to board members. The Board recommends the Rules Committee have annual reviews of all policies and procedures and bring recommendations, changes and/or edits to the full board for review.	REDW determined all Board members have a PERA email addresses. REDW obtained a copy of the new board member orientation agenda and verified that new board members received the training. REDW also confirmed that training regarding the Open Meetings Act and Public Records Act has been added to the FY2020 training requirements. PERA held a training 6/27/2019 on Open Meeting Act for the Board.
September 2015	Governance, Fiduciary Responsibility, and Training	Gifts and Conflicts of Interest Reporting	High/Moderate	Gift reporting has had 100% compliance, each board member has turned in a signed gift report which has then been tracked with what vendors have reported for the same periods.	REDW obtained board tracking sheet as of May 2019 from the Executive Assistant which includes all board members. Per review of spreadsheet all members were in compliance with gift reporting.

Audit Date	Audit Report	Observation	Risk Level	Management Response	Follow-up Procedures Performed
September 2015	Governance, Fiduciary Responsibility, and Training	Board Member and Committee Member Training	High/Moderate	**Management Response** Management agrees that better tracking and implementation of Board Member and Committee Member training will assist Board Members in their various oversight roles and acknowledges that the majority of the Board Members participated in the required number of hours of training. However, in order to improve tracking, Management will consider reorganizing the monitoring of compliance with training requirements to a dedicated Full Time Employee (FTE) in the Administrative Services Division. Additionally, Management will develop annual training regarding Standards of Conduct and track all Board Member training on an annual basis. Management will make the CIO and CFO available to the Board Chair to develop learning objectives for Board Members that take into consideration Committee assignments, length of tenure on the Board and other relevant criteria, and advise the Board Chair on the appropriateness of training requests. The Investment Division will work with the Board Chair and Investment Committee Chair to develop a policy that outlines a specific orientation and formalized ongoing education for Investment Committee Members. **Board Response** It was an omission not to change written policy allowing change to orientation to be completed during the annual board retreat. At least a half-day was dedicated to new and current board members to review current policies and procedures. The Board will add an "agenda" item twice a year to review board members compliance with training and gift reporting. With the new policy, the board relies on PERA employees and third-party investment consultants to properly administer the fund. The board's primary fiduciary responsibility is to ensure prudent investment and management of the fund.	REDW obtained board tracking sheet from the Executive Assistant which includes all board members. Per review of tracking sheet - All new Board members attended orientation within two months of becoming a Board member. - All members appeared to have met the minimum 8 hours of training during 2018. - Financial expert requirement has been satisfied by various board members including Dan Mayfield, CGFM, Jackie Kohlasch, Auditor for the Tax & Rev Department and Tim Eichenberg, State Treasurer for the State of NM.

Audit Date	Audit Report	Observation	Risk Level	Management Response	Follow-up Procedures Performed
September 2015	Governance, Fiduciary Responsibility, and Training	Ad hoc Evaluation Committee and Due Diligence Process	High/Moderate	The Investment Committee adopted a new process as it pertains to RFP's and RFI's. This process includes the use of a RFP/RFI Checklist for Trustees, where the Trustee acts as a Compliance Monitor and Process Supervisor. The RFP/RFI Checklist for Trustees is intended to aid Trustees in the oversight of the manager selection process and is designed to be a tool to ensure that the RFP/RFI due diligence process adheres to PERA's internal policies and procedures and best practices. The checklist follows a hierarchy from strategic asset allocation to procurement model to diligence to manager recommendation and flags the key decision points. This checklist also removes the Trustee's from the role of acting as a subject matter expert and also eliminates their use of the evaluation scorecard that is employed by the investment staff during the RFP/RFI manager selection process. It should be noted that this new process does not require PERA to update or revise the Procurement Policy or Investment Policy Statement.	1) Obtained a copy of the RFI Process Checklist and determined that it included the appropriate information to ensure adherence to PERA's internal policies and procedures and best practices. 2) Obtained a completed RFI Process Checklist that was completed to ensure the checklist was used. PERA Board adopted a new investment policy in which they delegated the managing of the portfolio to the investment staff and the board will review and monitor the investments. The Board is no longer involved in the due diligence of the RFP/RFI for investment managers.
May 2015	Census Data and Contributions	Discrepancies in Census Data	High/Moderate	Per Management, data clean up has been completed. Additionally, employer training has occurred and system validations have been turned back on. The implementation of late fees/penalties will be implemented beginning July 1, 2019.	Significant progress has been made with the data clean up project including system validations being run on incoming data. Due to the progress made and that REDW will be completing a full re-audit of Census Data as part of fiscal year 2020 audit plan, we will consider this observation resolved.

Follow-up on Outstanding Internal Audit Observations
Unresolved Observations
As of June 2019

Audit Date	Audit Report	Observation	Risk Level	Management Provided Status Update	Follow-up Procedures Performed
October 2018	Employer Payment Transmittals and Related Reconciliations	Employer contribution remittance not timely	Low	As of December 31, 2018 the old E-Bill site was deactivated. All employers are required to pay invoices through the new E-Bill site forcing them to pay the due amount instead of an alternative amount. Beginning July 1, 2019, late fees will be assessed on the 16th after the month end at $50 per day. PERA is working on changing the current statute to enable PERA to properly assess late fees on a pay period end basis. The current statute is only for monthly reporting and PERA now has semi-monthly and bi-weekly reporting.	REDW obtained the March Employer Payments report showing amounts due from all employers, pay period end date and date of payment for the month of March 2019, we observed multiple employers who are making payments past 15 (business) days. We consider this observation unresolved.
May 2018	Organizational Communication and Efficiencies	Records/Imaging Documentation Requirements	Moderate	PERA intends to updated procedures defining acceptable documentation and timing. PERA expects these procedures to be completed by September 2019. The CFO will meet with Ron and Gabe bi-weekly to ensure these procedures are completed timely.	REDW obtained and read the Records Management: Scanning Process, revised June 22, 2018, however it did not appear to address acceptable documents, proper time requirements or defining of responsibilities. We consider this observation unresolved.
February 2018	Information Technology	Lack of IT Policies and Procedures	High	IT currently has 28 polices in draft status. These remain "draft" as the will need to be altered to meet their new infrastructure buildout. The intent is to have policies finalized by December 31, 2019.	REDW inquired with PERA's new CIO on the status of IT policies and procedures. REDW obtained a listing of all the draft policies. No testing will be performed as policies have not been finalized. We consider this observation unresolved.

Audit Date	Audit Report	Observation	Risk Level	Management Provided Status Update	Follow-up Procedures Performed
February 2018	Information Technology	User Access Reviews	Moderate	User access reviews will be will begin June 2019.	REDW inquired with PERA's new CIO if access reports have been created, distributed to supervisors, responses received and actions completed. No testing will be performed while this is in progress. REDW will test reports once completed during the next follow-up audit. We consider this observation unresolved.
February 2018	Information Technology	Helpdesk Ticket Resolution	Moderate	Per the CIO, the RIO Enhancement project has concluded and we have since moved into a maintenance agreement with the vendor. At this time service agreements are being met. IT is clearing procedures for addressing help tickets which would address documentation and timing. The estimated completion date is June 30, 2019.	REDW inquired with PERA's CIO regarding the helpdesk resolutions steps that have been taken. No testing will be performed while this is in progress. REDW will test timeliness and documenting of resolution of desk tickets once all procedures are updated. We consider this observation unresolved.
March 2016	Benefit Payments and Refunds	Documents were not properly transferred during import to RIO	Low	PERA does intends to work on documenting monthly reviews and verifications. The new CIO will work with records and the CFO in reviewing this observation and determining how to improve documentation.	REDW inquired with PERA regarding the current status of the reviews. The department stated reviews are now taking place however, they are not being documented. REDW will consider this unresolved for this follow up and will regroup with the new CIO during the next round of testing. We consider this observation unresolved.
October 2016	Service Credit	Lack of controls over active member service credit balances	High	The RIO build-out should be completed by end of June 2019. Upon completion, management will monitor to ensure no additional errors are identified and this area will be ready for testing in next years follow-up.	No testing will be performed while this is in progress. REDW will plan to test when the data clean up is completed. We consider this observation unresolved.

Audit Date	Audit Report	Observation	Risk Level	Management Provided Status Update	Follow-up Procedures Performed
September 2015	Governance, Fiduciary Responsibility, and Training	Board Member and Committee Member Training	High/Moderate	Tracking of Board education and training has been centralized with the Executive Assistant under the Executive Director. A tracking system has been implemented for each individual Board Member, for each calendar year, comprising information on travel, education and gift reporting. The current Chief Investment Officer is currently conducting two trainings a year with the Investment Committee so they may obtain relevant training. The Board Policies and Procedures are still pending review and approval.	The observation will remain unresolved because the policy has not been reviewed by the Board or implemented yet. The review is scheduled to be completed by the end of 2019. REDW obtained board tracking sheet from the Executive Assistant which includes all board members. Per review of tracking sheet - An education affidavit was not obtained for two board members for 2018. - Policy has not been reviewed by the Board or implemented yet. We consider this observation unresolved.
September 2015	Governance, Fiduciary Responsibility, and Training	Board Policy Document and Committee Charters	High/Moderate	Annual reviews of the charters have been added to the Work Plans and Agendas for each committee with the exception of the Investment Committee. As of June 2019, the Audit and Budget charter and Smart Save charter had been reviewed and approved however, the Rules and Administration and Investments charters had not. The Board is not currently performing self evaluations in accordance with charters and policy documents.	The observation will remain unresolved. The board has not performed a self-evaluations in accordance with charter and policy documents. In addition, it does not appear that charters are being reviewed annually.