

**NEW MEXICO**  
**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

**Audit & Budget Committee Meeting**

**September 8, 2020**

1. This monthly meeting of the Audit & Budget Committee Meeting was held on the date cited above via Zoom tele/videoconferencing. David Roybal, Chair, called the meeting to order at approximately 9:52 a.m., and adjourned at 10:19 a.m.

2. **Roll Call**

Trish Winter, Executive Assistant, undertook the roll call. Meeting attendance met quorum, with the following members present:

**Members Present:**

David Roybal, Chair  
Lawrence Davis, Vice Chair  
Dan Mayfield  
Loretta Naranjo Lopez

**Member(s) Absent:**

Claudia Armijo

**Additional Board Members:**

Paula Fisher  
Steve Neel  
Patty French

**Staff Members Present:**

Wayne Propst, Executive Director  
Greg Trujillo, Deputy Director  
Susan Pittard, General Counsel  
Misty Schoeppner, Deputy General Counsel  
Dominic Garcia, Chief Investment Officer  
Kristin Varela, Deputy CIO  
Karyn Lujan, SmartSave Plan Manager  
Anna Williams, Administrative Services Director/CFO  
LeAnne Larranage-Ruffy, Private Equity

**Others Present:**

Jessica Bundy, CPA Principal, REDW  
Caitlin Gutierrez, CPA Internal Audit Manager REDW

3. **Approval of Agenda**

Ms. Naranjo Lopez moved to approve the agenda. Mr. Mayfield seconded. The motion to approve the Agenda was passed by unanimous roll call as follows:

David Roybal	Yes
Lawrence Davis	Yes

Dan Mayfield Yes  
Loretta Naranjo Lopez Yes

**4. Approval of Consent Agenda**

Mr. Mayfield moved the motion to approve the Consent Agenda, seconded by Mr. Davis. The Consent Agenda was approved by unanimous roll call as follows:

David Roybal Yes  
Lawrence Davis Yes  
Dan Mayfield Yes  
Loretta Naranjo Lopez Yes

**5. New Business**

***REDW Presentation re: Investment Manager Selection and Monitoring Internal Audit***

Ms. Caitlin Gutierrez, CPA Internal Audit Manager REDW, briefed the Committee on procedures and observations respecting Investment Manager selection and monitoring over liquid and illiquid investments.

**Observation 1: Documentation Issues**

Use of specific clauses which are to be included in a Request for Information packet as required by the Procurement Procedures Section 90. Ms. Gutierrez observed one instance where the standard template was not used, resulting in two clauses relating to authorized communications and agreement of the proposal being public record being omitted from the RFI. Ms. Gutierrez assessed this risk as moderate and recommended PERA implement a periodic, independent review over the due diligence checklist to ensure compliance with policy and that review be documented.

Management agreed with observation and will restructure one FTE on implementing procedure, with solicitation of position in December and implementation by January. The due diligence checklist will be immediately adjusted to assist the team in final documentation and reporting of exclusions/deviations. Final CIO execution will be contingent on its completion.

**Observation 2: Documentation of Process Deviations**

Several steps are involved in the procurement process for managers, and it may be appropriate for one of those steps to not be performed due to existing relationships in place. Testing discovered one instance in the RFP/RFI process where an on-site visit was not performed and one instance where the operational due diligence memo was not completed. In the illiquid manager selection process, there were three instances where certain components were not completed. Ms. Gutierrez observed all instances had legitimate reasons for not being performed, but the justification was not documented on the due diligence checklist. Ms. Gutierrez assessed this risk as moderate and recommended PERA implement periodic due diligence checklist reviews to ensure documentation is in place to support those deviations from the process.

Management agreed and will implement an audit procedure to ensure all documentation is in place, as well as enhancing the due diligence checklist to assist the team in documentation and recording of those exclusions and deviations. The Investment team has already taken those proactive steps to implement checklist enhancements for all future RFP, RFI and illiquid manager selection.

**Observation 3: Documentation of Procurement Method Approval**

Procurement procedures require RFI documentation to be maintained for each procurement. Testing determined that there was no documentation of that approval for the procurement method utilized. Ms. Gutierrez assessed risk as low given CIO is an active participant through the entire process and recommended PERA add a line item to the due diligence checklist for CIO or General Counsel approval to ensure that documentation is maintained.

Management agreed, beginning with the stage zero process with a specific section for procurement method approval. They'll do that during the formal prism meeting to ensure that documentation of approval is in place. Also, a specific line item has been added to the due diligence checklist already.

Ms. Gutierrez identified a process improvement opportunity for the quarterly review of illiquid management fee analysis and review on a quarterly basis. She observed there was no documentation in place for who and when that review was performed. Ms. Gutierrez recommended documenting those dates as well as any additional research or variances and results from that review for information tracking purposes.

### ***Questions and feedback***

Ms. Naranjo Lopez enquired as to why the Board was not interviewed in this review, voicing a concern that there is little Board oversight. Ms. Gutierrez indicated the Investment Committee and investment team worked together closely to determine the required level of reporting, and the responsibility for reporting to the Board as a whole comes from the Investment Committee itself as opposed to staff.

Ms. Naranjo Lopez questioned how REDW was monitoring organizational policies and procedures to prevent improprieties and asked for clarification on the monitoring process. Ms. Bundy explained they look to ensure the process in place is adhering to Board-approved policy and procedures and that appropriate documentation and due diligence was in place. Ms. Gutierrez clarified the role is not to oversee the investment decisions, rather to ensure the process is being followed.

Ms. Naranjo Lopez asked for the recommendations regarding the documentation review, and if there was a lack of Board oversight. Ms. Gutierrez did not observe a lack of Board oversight, merely some informalities present with documentation procedures. The investment team agreed and acknowledged this and is taking active steps to implement enhanced documentation procedures moving forward. Ms. Bundy expanded on the role of an internal auditor is to look for potential weaknesses and address them moving forward.

Ms. Naranjo Lopez requested a list of managers reviewed under liquid investments in writing, outlining Top 10 managers and bottom two. Ms. Gutierrez advised she would send sample selection to committee. Ms. Naranjo Lopez also requested the names of Board Members involved in the RFP in the two managers reviewed and asked who was appointed to the RFP in writing. Ms. Gutierrez agreed to provide this information.

Ms. Naranjo Lopez further asked how top managers were selected for the RFI, who the five managers were and how two were selected. Ms. Gutierrez indicated it was a random sample selection. Ms. Naranjo Lopez requested the names of the two samples, along with the 22, and the reason why six managers were selected, an overview of the process and what questions were addressed. Ms. Naranjo Lopez further requested the selection of 135 and 14 final under management fees, and asked what investigation was done to ensure management fees were tied to good performance only. Ms. Naranjo Lopez sought recommendations. Ms. Gutierrez advised that was a Board and Management decision, not a function of the Internal Auditors.

Ms. Naranjo Lopez asked for the names of the managers who required corrective action, and the reason for corrective action for liquid and illiquid. Ms. Gutierrez requested Ms. Naranjo Lopez send her list of questions so the information can be provided.

Ms. Naranjo Lopez enquired if any Board Members were invited to attend at least one of the Limited Partner Advisory Committees and stated her position that the Board attend such meetings and make recommendations. Ms. Gutierrez advised that was a Board Management decision to determine attendance at meetings. Ms. Naranjo Lopez emphasized the liability and responsibility of the Board Members and recommended that the Board attend the all-PAC meeting. Ms. Naranjo Lopez further requested a copy of the RFI standard template, including the causes noted that were left out. Ms. Gutierrez referred Ms. Naranjo Lopez to the procurement policy to review specific clauses as identified in the report.

Ms. Naranjo Lopez asked if management has been responsive to the Internal Auditor recommendations. Ms. Gutierrez indicated management was extremely responsive throughout the entirety of the internal audit and always willing to go above and beyond the audit to identify any potential risk area. Ms. Gutierrez expanded that they were very honest with risk and questions and provide information in an extremely timely manner and take all recommendations seriously. Both sides understand the impact, the risk and how it can better things. Management has already taken proactive steps to address the observations and make sure they are improving those processes moving forward, and controls are in place to address observations made.

Ms. Naranjo Lopez asked if there were any areas of concern not reviewed due to budget or other limitation. Ms. Gutierrez could not recall but committed to review binder and inform. Ms. Gutierrez requested Ms. Naranjo Lopez send her questions so they could each be addressed.

Mr. Davis asked for the determined cause for each observation. Ms. Gutierrez indicated Observation 2 and 3 that documentation is integral to Internal Auditors and that the depth of formal documentation was not as clearly understood as people deem documentation differently. This is why the recommendation is to bring it all into one concise, easy-to-find area. Observation 1 with the standard template was simply an oversight.

Mr. Davis asked if additional training or checklists were required and stressed any deviation from policy and procedures needs to be documented. Mr. Mayfield concurred with Mr. Davis and thanked REDW for their work and expressed appreciation. Ms. Gutierrez noted the checklist has been enhanced with each step of the process and a requirement to document any deviation.

## **6. Adjournment**

Having completed the agenda and with no further business to come before the Board, Ms. Loretta Naranjo Lopez moved to adjourn. Chair Roybal declared the meeting adjourned.

Approved by:

David Roybal  
Chair, Audit & Budget Committee

ATTEST:

  
Wayne Propst, Executive Director

Exhibit(s) attached:

*Exhibit 1: PERA Investment Manager Audit Final*