New Mexico
Public Employees Retirement Association
Audit & Budget Committee Meeting
December 14, 2021

1. **Call to Order**
   This meeting of the New Mexico PERA Audit & Budget Committee was held on the date cited above via Zoom tele/video conferencing. Chair, Diana Rosales Ortiz, called the meeting to order at approximately 9:30am.

2. **Roll call**

The meeting attendance met quorum with the following members present;

Board Members Present	**Board Members Absent**
Diana Rosales Ortiz, Committee Chair	Claudia Armijo
Loretta Naranjo Lopez	Lawrence Davis
Tim Eichenberg (appointed for this meeting)	John Melia

Other Board Members Present
Francis page
Steve Neel
Shirley Ragin
Roberto Ramirez

Staff
Greg Trujillo, Acting Executive Director
Trish Winter, Executive Assistant
Anna Williams, Deputy Director
Kristin Varela, Interim CIO
Misty Schoeppner, Deputy General Counsel
Karyn Lujan, SmartSave Plan Manager
Jessica Trujillo, HR Manager
Geraldine Garduno, Assistant General Counsel
Ron Gallegos, CTO [out @ 10:30am]

Others in Attendance
Jessica Bundy, REDW
Jennifer Morales, REDW
Rose Dean, Wilshire
Steve DiGirolamo, Wilshire
Artie Pepin, AOC
Stephanie Sorg
Charlie Marquez, Broadspectrum Consulting
Gar Chung, FIN News
Annette Martinez-Varela

3. **Approval of Agenda**

Tim Eichenberg moved to approve the agenda. Diana Rosales Ortiz seconded the motion. The motion passed with a unanimous roll call vote as follows;

Diana Rosales Ortiz   Yes
Loretta Naranjo Lopez   Yes
Tim Eichenberg   Yes

4. **Approval of Consent Agenda**

Tim Eichenberg moved to approve the Consent Agenda. Loretta Naranjo Lopez seconded the motion. The motion passed with a unanimous roll call vote as follows;

Diana Rosales Ortiz   Yes
Loretta Naranjo Lopez   Yes
Tim Eichenberg   Yes

5. **New Business**
A. **Internal Audit Report – Information Technology Report**

The REDW team, consisting of Jessica Bundy and Jennifer Morales, presented the report.

The Committee was informed that the IT Department had cautioned against sharing the report on the screen during the meeting as that could lead to security issues.

Ms. Bundy stated the audit focused on evaluating policies and procedures and internal controls over key IT-related areas, specifically focusing on user access, workstation security, security awareness training, remote access, and mobile security. The audit also looked at the disaster recovery plan and security incident response plan to ensure that the documents were developed and aligned with best practices.

Ms. Jennifer Morales reported a similar audit had been performed in February of 2018. She highlighted some of the accomplishments made by the IT team since that time. Ms. Morales stated that the observations made in the recent audit will act as future goals that PERA will work on to enhance the accomplishments made since the 2018 audit.

Ms. Naranjo Lopez stated that the report was concerning and wondered why these things were not in place. She pointed out that there's frequent news about companies getting hacked. She also asked what deterred PERA from following the requirements.

Responding to Ms. Naranjo Lopez, Deputy Director, Ms. Anna Williams, stated she had reviewed the 2018 audit report and had noted significant differences between then and now. She confirmed many things such as removing access to a USB port had been achieved. Other

safeguards concerning network security had also been worked on by the CTO, Ron Gallegos, and his team.

Mr. Gallegos explained the items were not currently in place because of the recent changes in the architecture of the system. He reiterated the requirements were in place, but there had been a change in how it works. Therefore, the plan needed an update. However, with the frequently changing nature of technology, the requirements have to be re-engineered and updated frequently.

He also pointed out that the audit did not imply that the requirements were not in place. It simply indicated that they needed to be updated. He was also ready to discuss security measures offline.

Ms. Morales added that the audit had not identified any high risks. The recommendations were meant to ensure that the processes are updated.

Ms. Naranjo Lopez asked if there is a checklist that Mr. Gallegos and his team go through to ensure that security is done correctly. Mr. Gallegos confirmed that there are comprehensive processes in place to ensure that the security is up to date. Chair Rosales Ortiz gave Ms. Naranjo Lopez the go-ahead to reach out to Mr. Gallegos offline to get details of the audit report.

Mr. Eichenberg asked if Mr. Trujillo was okay with the technology measures being put in place. Executive Director, Greg Trujillo, explained that apart from the changing technology, the workplace also continues to change. He stated that Mr. Gallegos' team had been in the office throughout the COVID period and more people had also been brought in. Significant financial investment had also been put in IT prior to COVID.

Mr. Trujillo added that the steps taken had paid huge dividends. He also expressed confidence in Mr. Gallegos and his team as they are vigilant and are always sending updates to staff.

1) **Employee Security Awareness Training** – Ms. Morales reported that the IT Department partners annually with a third party to offer formal security awareness training and actively communicates other information released based on current cyber risks, trends, and events that are taking place in society.

Ms. Naranjo Lopez asked if Mr. Gallegos had considered looking at a consultant on cyber security due diligence. She felt that an outside organization should oversee the process and give ideas on how PERA should move forward.

In response, Mr. Gallegos stated that PERA usually does security awareness training. Before COVID, there was an annual security training that was required for all staff where an external party came in and talked about things that should be done.

Mr. Gallegos also stated that they send out regular communication on dos and don'ts to guide people. He pointed out that the finding indicated that the training was not incorporated into

the onboarding. Only the policies were incorporated. He further stated that a plan or a policy will be formulated to incorporate the training into everyone that's onboarded and ensure that they complete the training.

2) **Disaster Recovery –** The audit determined the plan does not reflect the current backup process or detail the recovery of critical systems. Testing and training of the plan had also not taken place yet.

   Ms. Morales reported that the Business Continuity and IT Disaster Recovery Policy and the Backup Restore Policy are still in draft format. This is a moderate risk since the absence of an updated disaster recovery plan, complete with a risk assessment and associated policies and procedures, would escalate this risk higher because PERA may not be able to handle a disaster scenario. However, the routine data restoration exercises conducted by PERA IT and the presence of a secondary environment reduce the risk to a moderate level.

3) **IT Policies and Procedures** – The IT Department has made progress in getting several policies in place since the 2018 audit. However, several policies either remain in draft form or have not yet been developed. This is a moderate risk since the absence of a comprehensive set of policies and procedures increases the risk that IT personnel may not consistently apply procedures or processes may lapse in the event of turnover.

4) **Sensitive Data -** Policy is in place that includes directions for securing sensitive information by directing employees to not send sensitive data such as personally identifiable information without ensuring the information is encrypted. The IT Department frequently shares guidance on how to use the email encryption feature.

   The audit determined that employees send sensitive information through email and were not aware that encryption tools were available to protect the information. This is a moderate risk since the absence of knowledge regarding encryption tools to protect sensitive data and email communication escalates the risk that sensitive data may be compromised.

   However, PERA IT has software in place that recognizes sensitive information and automatically encrypts the email so it reduces the risk to moderate. There's also a data leak prevention that looks at data being sent and redacts sensitive information.

5) **Saving data to local hard drives –** The IT Department continues to relate the importance of how to properly save PERA data to the network as per IT best practices. They make sure that employees know, save it to the network to ensure that the data is backed up and recoverable.

   The audit determined that employees were saving PERA data to their local hard drives as opposed to the network, therefore, rendering the data potentially unrecoverable in the event of a malfunction on their computer. This is a moderate risk since the continuation

of employees saving PERA data on the computer hard drive instead of the network increases the risk that data may be lost in the event of a malfunction.

Ms. Morales reported that from the 2018 audit, one observation was still outstanding. That was lack of IT policies and procedures. PERA did not have a comprehensive set of documented and approved IT policies and procedures. As of September 2021, the IT Department had made improvements on the drafting and implementation of policies with several being drafted and approved for use.

This observation was, therefore, considered resolved and will be replaced with a new one from the August 2021 IT audit. Ms. Morales also reported that REDW had provided the IT Department with a comprehensive list of policies that should be in place as per best practice to assist with guiding their development.

Francis Page inquired about the staffing level of the IT Department and how they would take care of all the findings. Mr. Gallegos stated that there are five core IT staff, including himself. He recognized that the amount of work is a lot and they have to prioritize work focusing on the ones with the highest risks first.

Mr. Gallegos also noted that the audit done was excellent and that a lot of progress had been made since the 2018 audit. He reiterated that the policies need to be updated but the updating is not done on time since the staff is usually busy with other things. They, therefore, prioritize working on things that have the largest impact on the safety of PERA's data.

Staff also must ensure that PERA members have a reliable system to connect to and that everything is functioning as required. After all that is done, they then start working on updating the policies.

Mr. Gallegos pointed out that log4j bug is the biggest thing to hit the system in the last 2-3 years and they would be dealing with it for a long time.

In response to Mr. Page's question on vacancies, Mr. Gallegos stated that there are currently two vacancies within core IT. He further stated that it is hard to recruit for IT positions since most of the time they get people who are not as qualified. If they get qualified candidates, they usually request higher salaries than is available for that range.

Mr. Gallegos informed the Committee that IT security personnel are paid upwards of $250,000 to $300,000 a year while PERA is only offering a range of $50,000 to $60,000. This, therefore, makes competing for resources hard. As a result, Mr. Gallegos stated that they usually get juniors and try to train them up. By the time the juniors are fully trained, they look for jobs outside where they will make more money.

Mr. Page requested Mr. Trujillo to put the issue of vacancies on the list to be dealt with and ensure that PERA has salaries that are competitive with the market. Mr. Trujillo stated paying the market rate is possible but the Plan was at the will of SPO. Several meetings have been held with SPO and there have been some successes with internal resources. However,

getting more money from the State government had proven difficult. Mr. Trujillo further stated that they will keep pushing to get the salaries up.

Chair Rosales Ortiz stated that to overcome staffing issues, other state agencies were reaching out to interns at the colleges and universities. She asked if that could be an alternative for the IT Department since several success stories had been cited where the interns had decided to stay and develop their careers.

Responding to Chair Rosales Ortiz, Mr. Gallegos replied he had had that conversation with other chief information officers throughout the state level. They had determined the intern alternative could help in other lower-level stuff, but by the time they got up to speed, their internships would be over. Mr. Gallegos further explained that it was easier to get a lower-level employee as a desktop tech and then train them up to a system or network administrator. He had done that many times. He added that the major issue was in how to attract people to the State while competing with the private industry.

Mr. Trujillo further explained interns had been used across the agency in the past. However, the major issue as far as retaining them or moving them into an official position was that they usually do not meet the minimum qualification since SPO classifications require some years of experience. This, therefore, makes it hard to train an intern and move them into a fully paid position.

Ms. Naranjo Lopez proposed having a study done to ensure that PERA IT are paid in line with what other states are paying. She stated that $60,000 is low and that carrying out the study will ensure that the IT Department gets qualified people. She further added that the study should be done immediately to resolve the issue.

Chair Rosales Ortiz agreed with Ms. Naranjo Lopez and pointed out that staffing and compensation were also the same issues with the investment team. She stated that the study proposal will be looked at next year.

Ms. Bundy reiterated that a lot of progress had been made since the 2018 audit even though some areas can be done better.

B. FY21 Budget to Actual Statement

Deputy Director, Anna Williams reported that for personal services for the fiscal year-end 2021, PERA had a total expenditure of $7.7 million. $475,000 was reverted to the fund in the that Category.

In contractual services, PERA's total expenditure was $30 million. $1.7 million was reverted to the fund.
In the Category for other operating expenses, PERA's total expenditure was $1.8 million, and $247,000 was reverted to the fund. In total, $2.4 million was reverted to the fund in fiscal year-end 2021. This budget to actual statement will be released by the state auditors in the next two weeks.

Ms. Naranjo Lopez requested that an itemized budget be presented to the Board, including individual names, people, and vendors. She also asked why the budget went up to $32 million for contractual services.

In response, Ms. Williams stated that the Category went up because investment fees were paid as a result of earning above basis points. The Investment team had set some performance measures that they beat, leading to an increase in manager fees. The increased fees are usually written into the budget every year to pay the fees when the returns are good.

Ms. Naranjo Lopez was concerned that huge incentive fees were being given out when the fund had only received about half of what the market provided. She felt that that issue should be evaluated before incentives are given out.

In response, Ms. Varela gave the example of BlackRock, the managers of PERA's core bond position. This is about a $1 billion overall position. BlackRock outperformed their benchmark by over 400 basis points. That equates to about $40 million in profits for New Mexico in which New Mexico had agreed to pay 15% of that.

Ms. Varela stated that the fund only pays fees to managers who are producing asset returns and BlackRock drove a huge amount of value for the fund. Ms. Naranjo Lopez reiterated that it was concerning that the market was providing returns at 52% while PERA was still at 26%.

C. FY22 Budget Projections through 11/30/2021

Ms. Williams reported PERA was currently showing positive in the 200 Category with a vacancy rate built in of 6.3%.

In the 300 Category, the contractual services, which includes about $21.6 million in investment contracts, PERA was showing a flat. Investment team will continually review the investment performance and managers.

There was a shortfall in the 400 Category. This will be monitored as potential savings in other areas in the 400 Category are showing.

D. Memo of Continuity

Ms. Williams presented a memo of transition that will be given to the new Audit & Budget Chair in 2022.

Chair Rosales Ortiz explained that the memo would aid with compliance and oversight to ensure the next Chair has a roadmap on things that were done and those that are in progress. She also highlighted the outstanding work that Ms. Williams and her team did in FY2020 and the three awards they had received. Those awards spoke to the quality of their work and financial reporting.

Chair Rosales Ortiz also opined that PERA had earned those awards because the numbers are right, there was transparency, and the reporting was done properly.

Ms. Naranjo Lopez thanked Ms. Williams for the presentation and requested the information sent out by the Board Chair, Mr. Page, to be sent to her.

6. **Adjournment**

With no further business to discuss, Chair Rosales Ortiz adjourned the meeting at approximately 10:40am.

Approved by:

RATIFIED AT APRIL 14, 2022 MEETING

Diana Rosales Ortiz,
Audit & Budget Committee Chair

ATTEST:

Greg Trujillo, Executive Director