

NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
AUDIT & BUDGET COMMITTEE MEETING

August 12, 2014

This meeting of the Public Employees Retirement Board Rules & Administration Committee was called to order by Chair Stewart Logan at 11:15 a.m. on the above-cited date in the PERA Building, Fabian Chavez Board Room, 33 Plaza La Prensa, Santa Fe, New Mexico.

Executive Director Wayne Propst called roll and a quorum was established with the following members present:

Members Present:

Stewart Logan, Chair
Jackie Kohlash, Vice Chair
John Reynolds
Loretta Naranjo-Lopez
Louis Martinez

Member(s) Excused:

Dianna Duran

Other Member(s) Present:

Dan Esquibel
Paula Fisher
Patricia French
Roman Jimenez
Dan Mayfield

Staff Members Present:

Wayne Propst, Executive Director
Susan Pittard, Chief of Staff/General Counsel
Sylvia Barela, ASD Director
Greg Trujillo, Deputy Director
Judy Olson, Executive Assistant
Jonathan Grabel, Chief Investment Officer
Karen Risku, Deputy General Counsel
Natalie Cordova, Chief Financial Officer
LeAnne Larrañaga-Ruffy, Portfolio Manager
Christina Keyes, Portfolio Manager
Roderick Ventura, Assistant General Counsel
Sam Ojinaga, Contributions Accounting Bureau Chief

Greg Portillos, Manager, Information System
Eric Martinez, Maintenance Supervisor
Patrick Alarid, Budget Manager

Others Present:

Jamie Feidler, Cliffwater
Tom Toth, Wilshire
Wayne Lloyd, Lloyd & Associates Architects

2. APPROVAL OF AGENDA

Chair Logan rearranged the agenda moving items E to the top of the agenda.

Mr. Reynolds moved to approve the agenda as amended. Ms. Kohlasch seconded and the motion passed by unanimous [5-0] voice vote.

3. APPROVAL OF CONSENT AGENDA

Mr. Reynolds moved to approve the consent agenda. His motion was seconded by Ms. Kohlasch. The motion passed without opposition.

4. CURRENT BUSINESS

A. Informational Item: RFP Building Repair

Sylvia Barela, ASD Director, introduced Wayne Lloyd, an architect assisting the agency with building concerns. Mr. Propst directed the Committee to Ms. Barela's memo that provides a synopsis, and outlines the building issues, especially with spalling. Mr. Lloyd has assisted staff in developing an RFP to remedy the issues.

Responding to Mr. Reynolds' question, Mr. Propst said PERA owns the building and is responsible for repairs.

Mr. Lloyd said an RFP was issued for the repair work and a second pre-bid meeting is scheduled next week. The work to be performed includes a metal flashing on top of the concrete parapet around the entire building and repair all of the horizontal and vertical cracks.

Mr. Lloyd said a sealant is not the appropriate treatment for the outside of the rammed earth building. However, some of the free standing walls will be treated with a sealant and, following the winter, analyzed for effectiveness. The building has a steel frame and the rammed earth walls are not structural. He assured the Committee that there are no major structural issues. The flashing will deflect the water off the face of the building. The spalling is occurring when the water gets behind the sealant, especially on the south side where the temperature varies greatly. The sealant locks the moisture and the recommendation is to patch major cracks. Free standing walls will be treated with different sealants.

The specifications from the building's original architect indicated continual maintenance. He anticipated maintenance every three to four years. He mentioned buildings with far less psi (pounds per square inch) of compaction of the mud than this building that have held up for 15 years – handle weather and have no sealant

Ms. French said the building needs to be maintained.

Mr. Esquibel asked whether the original architect provides water channeling aside from running down the wall. Mr. Lloyd said there was none. He noted that many rammed earth/adobe buildings especially churches in northern New Mexico, have a two-foot to three-foot overhang to move the water away from the building. That type of overhang, while successfully addressing the issue, would change the entire look of the building. The original architect was out of Phoenix.

Mr. Esquibel expressed concern that the flashing would not provide an adequate fix over time. Mr. Lloyd agreed that a more permanent fix was preferable. The entire building could be wire lathed and a cementitious stucco applied over the entire building. Stucco requires maintenance every 18 to 20 years. However, it will change the building's character and raises an aesthetic question.

Mr. Lloyd guesstimated issuing an RFP to patch the spalling every few years would run \$40,000 to \$50,000. Wire lathing this building would be difficult because of the detailing.

Ms. Barela said no funds were currently budgeted for this project. The agency has budget increase authority in FY15 and once the bids come in staff will have an idea of the cost to increase the budget. Mr. Propst said PERA asked for specific budget adjustment authority for this purpose in this year's appropriation request.

Mr. Lloyd said the repair work includes re-caulking around the concrete and rammed earth by the window sills.

Chair Logan encouraged the Board members to walk the building following the committee meetings.

A. Informational Item: Update on FY14 Audit

Natalie Cordova, Chief Financial Officer, reviewed a calendar of events beginning with June 2014 regarding the FY14 annual external financial audit. The auditors will perform onsite testing involving investment, IT, contributions and other compliance areas. In October PERA will begin to draft the financial statements that will include actuarial information and the auditors will review those statements and continue their employer census data testing. The exit conference is scheduled for December 5th and December 15th is the regulatory submission date to the Office of the State Auditor.

Ms. Cordova identified the external auditor as Moss Adams.

B. Informational Item: GASB 67/68 Timelines

Ms. Cordova said PERA will be seen as the leader during the GASB implementation process. GASB 67 will be disclosed in PERA's financial statements and that will be shared in the implementation of GASB 68. Successful implementation involves communication and education and Ms. Cordova reviewed steps that PERA will take to convey the information in a timely fashion. PERA has been proactive in implementation of GASB 67 and GASB 68.

Ms. Cordova said PERA's responsibility in the areas of education relates to what our entity will be disclosing in the financial statement related to GASB 67, which is the total pension liability and educating the employer participants on what the process and timeline will be.

Ms. Cordova highlighted the conferences staff will attend to present GASB information as well as the deliverables the actuary will provide. She outlined the auditor's role and the schedule for submittals. Q and A information will be posted on PERA's website following internal review.

Mr. Reynolds asked whether the State Auditor is actually reviewing the allocation of the total liability to each employer. Ms. Cordova said she understood the State Auditor's role will be similar to that of any audit submitted to their office – looking for required disclosures based on GASB 67 and 68. The external auditor, Moss Adams, will test the figures contained in the schedule, not the State Auditor.

Ms. Cordova said the separately issued schedule is new this year and PERA and ERB are the two agencies to provide that.

Mr. Propst said according to the information he received from Ms. Barela, the testing with the six entities selected by Moss Adams is going very well.

D. FY13 Audit Findings

Ms. Barela reminded the Committee that staff provided an update on the findings in March 2014. The report outlines the continued progress on the audit findings.

Greg Trujillo, Deputy Director, said in the past PERA scanned employer information and now that information is within the RIO workflow system. The information has been entered with 138 still in process. PERA has made significant progress. Incomplete employer forms are returned to the employer with a statement of incompleteness.

Mr. Trujillo said a finding regarding IT controls has been addressed with the implementation of complex passwords and account expiration dates in the user sites. Issues with directory structure security have been addressed by placing the materials in a

controlled imaging system/web browser. The agency reviewed department roles and locked down security within RIO based on job duties.

Another IT control issue had to do with changed management within the RIO application and staff has developed a formal policy documenting how specifications are defined, how testing is performed and changes implemented.

Ms. Barela reviewed the finding regarding reporting of plan contributions. The finding dealt with the contribution process and the Contribution Accounting Bureau has established a new business process to monitor suspended records daily. The bureau is running a daily RIO report that lists over and under payments by employers on which staff follows up with the employer. This report addresses an additional finding.

Ms. Barela noted that PERA deals with a tremendous volume of transactions daily and is requesting an additional FTE in Contributions Accounting to address the volume.

Mr. Trujillo said another finding had to do with the exception report – the issue of trailing contributions following the termination date which may affect the retirement benefit. There is an exception reports monitor and the issue is under control. A policy has been established justifying that PERA has made every attempt to rectify the accounts and since the financial impact was not material to benefit payroll, those accounts were closed out.

Retirement system staffing was a finding regarding experienced accounting personnel, stated Ms. Barela. PERA has addressed this issue by hiring Chief Financial Officer Natalie Cordova. Ms. Cordova's education and experience will allow her to properly address the accounting needs of the agency.

Ms. Barela said the final finding had to do with performance appraisals that the State Personnel rules require annual evaluations. As of June 31, 2014, performance appraisals have been completed for all PERA staff and the SPO has provided confirmation that PERA met the annual requirement and is in compliance. She indicated that PERA has 80 FTEs.

Mr. Propst said the agency has discussed opening an office in the southern part of the state. He indicated that it is a budget issue. He was pleased to inform the Committee that the Albuquerque office will be doubled by physical size and staffing.

D. Action Item: FY16 Budget Request

Ms. Barela said the FY16 budget request is due to DFA September 1, 2014. The total request is \$46.571 million, an increase of \$6.214 million from the current FY15 budget. Personal services included three new FTEs, reclassification of member services staff, the deletion of the internal auditor position and to issue an RFP for an audit firm for that service.

Ms. Naranjo-Lopez asked why the agency chose to delete the position and contract for the services. She said it was important that PERA employers continue to hire to keep New Mexico PERA strong. Ms. Barela said a contractor will provide greater expertise with all components of auditing. Mr. Propst said PERA has had difficulty recruiting for this position which is not classified very high. An outside firm will be able to tap into more resources and provide a better internal audit service to the Board and agency.

Chair Logan said an internal auditor needs independence from the agency and an outside agency can provide that autonomy.

Mr. Mayfield said in his former employment a contractual audit firm was used and they provided a broad expertise and are usually rotated every few years.

Ms. Barela noted an increase in contractual services attributed to GASB 67 and 68 work, manager investment fees, and legal fees. CIO Grabel noted the methodology of the request for increased investment manager fees is predicated on the fund balance growth of 7.75 percent.

Ms. Barela said other increases include replacing IT firewalls, increasing travel for Investments, the Albuquerque office space and postage.

Ms. Kohlasch moved to accept the preliminary budget as presented. Her motion was seconded by Mr. Reynolds. The motion passed by majority [4-1] voice vote with Ms. Naranjo-Lopez voting against.

5. **OTHER BUSINESS**

Mr. Jimenez commended Mr. Propst for the strength of the PERA staff team. Ms. French said she has received emails from the membership commending Mr. Propst.

6. **ADJOURNMENT**

Upon motion by Ms. Naranjo-Lopez and second by Ms. Kohlasch, Chair Logan declared the meeting adjourned at approximately 12:45 p.m.

Approved by:



Stewart Logan, Chair
Audit & Budget Committee

ATTEST:



Wayne Propst, Executive Director