

NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
AUDIT & BUDGET
COMMITTEE MEETING

March 10, 2015

This meeting of the Public Employees Retirement Board Audit & Budget Committee was called to order by Chair Stewart Logan at 9:15 a.m. on the above-cited date in the PERA Building, Fabian Chavez Jr. Board Room, 33 Plaza La Prensa, Santa Fe, New Mexico.

Following the Pledge of Allegiance, roll was called by Executive Director Wayne Propst and a quorum was established with the appointment of other Board members:

Members Present:

Stewart Logan, Chair
Jackie Kohlasch, Vice Chair
Tim Eichenberg [9:40 arrival]
Louis Martinez, appointed
Dan Esquibel, appointed

Member(s) Excused:

Dianna Duran
John Reynolds

Other Member(s) Present:

Patty French
Roman Jimenez
Paula Fisher

Staff Members Present:

Wayne Propst, Executive Director
Susan Pittard, Chief of Staff/General Counsel
Jonathan Grabel, Chief Investment Officer
Greg Trujillo, Deputy Director
Julian Baca, Deputy CIO
Judy Olson, Executive Assistant
Karen Risku, Deputy General Counsel
Roderick Ventura, Assistant General Counsel
Claudia Armijo, Assistant General Counsel
Natalie Cordova, Controller/CFO
LeAnne Larrañaga-Ruffy, Portfolio Manager
Joaquin Lujan, Portfolio Manager

Christina Keyes, Portfolio Manager
Jude Perez, Portfolio Manager
Kristen Varela, Financial Analyst
Patricia Thaxton, Liaison Officer
Karyn Lujan, Deferred Compensation Plan Manager

Others Present:

Jamie Feidler, Cliffwater
Tom Toth, Wilshire
Steve Cogan, REDW, Principal
Jessica Bundy, REDW, Senior Manager
Jim Sakelaris, JP Morgan
Paul Lium, Nationwide
Devon Muir, Mercer Investment
Erick Resnick, KSL Capital Partners
Steve Cowan, 57 Stars LLC
Amit Chandra, 57 Stars LLC

2. APPROVAL OF AGENDA

Mr. Martinez moved to approve the agenda as presented. His motion was seconded by Ms. Kohlasch and passed by unanimous [4-0] voice vote. [Treasurer Eichenberg was not present for this action.]

3. APPROVAL OF CONSENT AGENDA

Chair Logan said he reviewed the February 10, 2015 minutes and found them accurate and complete.

Ms. Kohlasch moved to approve the consent agenda. Her motion was seconded by Mr. Esquibel. The motion passed by [4-0] voice vote. [Treasurer Eichenberg was not present for this action.]

4. CURRENT BUSINESS

A. Informational Item: CAFR Update

Natalie Cordova, Controller/CFO, provided an update on the status of the 2014 CAFR (Comprehensive Annual Financial Report) that was submitted for review to the GFOA (Government Finance Officers Association) last month. PERA's CAFR is under review for the Certificate of Achievement For Excellence in Financial Reporting. PERA has received this certificate every year over the past decade. She outlined the GFOA review process that typically takes four to six months. PERA is one of eleven agencies in the state to achieve this status. She noted that many divisions within PERA worked to produce the comprehensive PERA CAFR.

Mr. Esquibel recommended PERA's history of receiving the certificate of excellence be published in *La Voz* for the membership's information of the exceptional achievements of PERA's staff. PERA Board members congratulated staff on their exceptional work and in receiving the certificate of excellence.

B. Informational Item: GASB 67/68 Update

Ms. Cordova updated the Committee on staff's progress within the GASB 67/68 timeline. She reviewed the progress made between July 2014 to November 2014 that included the completed testing of census and contribution data and monthly meetings to discuss implementation of GASB with PERA's auditors and actuaries. Financial statements and the audit report for GASB 67 disclosure was completed at the end of 2014 and early 2015. Trainings and outreach for the Municipal League and Association of Counties occurred. During February 2015, staff worked on preparing the employer contribution data needed for GASB 68 allocation.

Currently PERA's actuaries are preparing a schedule of liability-related information that will be subject to audit procedures performed by Moss Adams. Staff intends on supplying multiple schedules to the employer participants with data and disclosures necessary to implement GASB 68. Following review, a schedule of employer allocations will be available electronically on the PERA and State Auditor's websites.

Ms. Cordova reviewed the outreach/trainings that PERA will provide to employers and associations throughout the state. She said staff will be investigating how best to reach out to employers.

Chair Logan said he has heard feedback from employers of concern that they could owe more money. He asked whether there was a mechanism to protest if the employer appears to owe more money due to GASB 67/68 reporting. Ms. Cordova reminded the Committee that this is the first year of implementation and if an entity disputed the data they would need to provide data to better assess the information. She said depending on the size of the liability it could potentially impact an audit. The intent of the schedule of employer allocations is to ensure as best possible that the data has been fairly assessed and allocated based on the total liability.

Chair Logan recommended that at the August Board retreat staff present GASB 67/68 information to the Board.

Mr. Esquibel asked whether GASB 67/68 was a direct result of the financial situation of 2008/2009.

Ms. Cordova said per the GASB literature it was her understanding that as a cost-sharing plan with pooled assets every participant should partake in the liabilities in a shared manner as well.

Mr. Propst said he expected a lot of questions from employers asking how they could have an additional liability when they meet their statutory contributions. The answer is there is.

PERA's valuations show a shortfall in contributions that exist for each of PERA's plans. That has fueled PERA's adamant position about not tinkering with SB 27.

Ms. French asked what was PERA's responsibility in regard to entities' notification of GASB 67/68. Mr. Propst said PERA has a great deal of that responsibility as the umbrella for the participating entities. Some state retirement agencies are running the GASB 68 numbers and not providing them to the employer until they pay the cost of running the numbers; PERA is not doing that.

Mr. Propst said there is no additional liability placed on the Board: it is a disclosure requirement for the individual employers. PERA will try to provide as much support to the employers as possible. He expected some hard questions to come to PERA. GASB 68 is for accounting purposes only, not for funding. It appears that GASB instituted 67/68 to draw attention to the liabilities that need to be addressed.

C. Action Item: Proposed Three Year Audit Plan

Steve Cogan, REDW, Principal, reviewed the proposed internal audit plan for the remainder of this fiscal year and for the years of 2016 and 2017. Best practices speaks to reporting to and communicating with the Audit & Budget Committee at a high level in terms of the priorities and the allocation of resources. REDW has had a team reviewing PERA's processes, meeting with management and discussing potential risks as well as developing a draft plan for the audit. Part of the process will be continually looking at the risks to the organization and adjusting the audit plan as needed.

Jessica Bundy, REDW, Senior Manager, said in each audit area the audit will test against the internal policies, procedures and applicable laws and regulations to ensure compliance. Each audit will contain a full risk assessment and will adjust procedures based on gathered information. She reviewed each of the proposed audits for FY 2015: risk assessment and internal audit plan, census data and employer payroll information, internal audit training, information technology security awareness training, and custodial bank transfer process. She reviewed the proposed audit for FY 2016 and FY 2017.

Mr. Martinez requested an increase in the hours recommended for the custodial bank transfer process. Ms. Bundy said following BNYM's reconciliation, REDW will audit the reconciliation and 80 hours were slated for the entire process. She offered that the audit areas are open for time adjustment.

Jonathan Gabel, CIO, said staff is involved in a very thoughtful process with regard to the conversion with the new custodial bank, BNYM. Auditing before the fact may impair a smooth transition and staff's recommendation is to evaluate the process and then audit the implementation after the fact. He felt 80 hours was sufficient.

Mr. Cogan said REDW conducts an in-depth risk assessment before starting an audit on a process/area. Sometimes the risk assessment may demonstrate a need to change the estimated hours for the audit area.

Mr. Esquibel moved to accept the three-year audit plan. Mr. Martinez seconded and the motion passed by unanimous [5-0] voice vote.

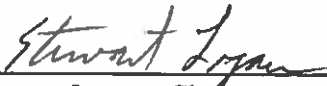
5. **OTHER BUSINESS**

None was presented.

6. **ADJOURNMENT**

Having completed the agenda, Chair Logan adjourned this meeting at approximately 10:20 a.m.

Approved by:



Stewart Logan, Chair
Audit & Budget Committee

ATTEST:



Wayne Propst, Executive Director