

**MINUTES OF THE NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
AUDIT & BUDGET COMMITTEE MEETING**

May 10, 2016

This meeting of the Public Employees Retirement Board Audit & Budget Committee was called to order by Chair Dan Mayfield at approximately 10:35 a.m. on the above-cited date in the PERA Building, Senator Fabian Chavez, Jr. Board Room, 33 Plaza La Prensa, Santa Fe, New Mexico.

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

Members Present:

Dan Mayfield, Chair
John Reynolds, Vice Chair
James Maxon
Jackie Kohlasch
Brad Winter

Member(s) Absent:

Tim Eichenberg

Other Member(s) Present:

Patty French
Dan Esquibel
Paula Fisher
Loretta Naranjo Lopez
John Melia

Staff Members Present:

Wayne Propst, Executive Director
Susan Pittard, Chief of Staff-General Counsel
Jon Grabel, Chief Investment Officer
Greg Trujillo, Deputy Director/Chief Information Officer
Karen Risku, Deputy General Counsel
Renada Peery-Galon, ASD Director
Natalie Cordova, Chief Financial Officer
Dana David, Assistant General Counsel
Misty Braswell, Assistant General Counsel
Jude Perez, Deputy CIO

LeAnne Larrañaga-Ruffy, Portfolio Manager
Kristin Varela, Portfolio Manager
Emily Lopez, Financial Specialist
Karyn Lujan, Deferred Compensation Plan Manager
Christine Ortega, Portfolio Manager
Lalleh Dayeny, Investment Division

Others Present:

Steve Cogan, REDW
Paul Madrid, REDW
Jessica Bundy, REDW

2. APPROVAL OF AGENDA

Ms. Kohlasch moved to approve the agenda as presented. Her motion was seconded by Mr. Reynolds and passed by unanimous voice vote.

3. APPROVAL OF CONSENT AGENDA

Mr. Reynolds moved to approve the consent agenda. Mr. Maxon seconded and the motion passed by unanimous voice vote.

4. CURRENT BUSINESS

A. Fiscal Year 2017 Operating Budget

Renada Peery-Galon, Administrative Services Director, informed the committee that the operating budget was submitted to DFA and the LFC. The 2017 budget will be implemented on July 1, 2016 and run through June 30, 2017. The budget is divided by categories; 200: personal services and employee benefits, 300: contractual services, and 400: other/operating expenditures.

Ms. Peery-Galon said the budget for FY 17 is \$42,824,400 with the majority falling with category 300 at \$39.4 million. The agency is factored at 4.3 vacancy rate which is a good low rate. There will be two new positions increasing FTEs to 84.

Referring to category 400, Ms. Peery-Galon noted \$74,000 for printing and photo service and \$141,500 budgeted for postage and mail services. In FY16, printing and mailing exceeded the budgeted amount. Outside of the operating budget there was \$77,300 appropriated for Social Security administration and \$4.2 million appropriated for IT, which is for data cleansing and enhancements to RIO.

Ms. Peery-Galon outlined PERA's relationship with Social Security noting that in 1955, Governor Simms designated PERA as the Social Security administrator. To pay for the administration of the program a contribution plan was established with the interest from the FICA taxes. In 1986 the FICA taxes stopped flowing through PERA and went directly from the employer to the federal government, thus there was no

revenue going into the fund. At that time the program and PERA's responsibilities diminished and there was only one person administering it. The fund supported the program until FY16 when it ran out of money. PERA's FY17 budget request included general fund money to oversee the program.

Chair Mayfield congratulated Ms. Peery-Galon on getting the budget through the process.

B. Presentation of Internal Audit Reports on:
1. Benefit Payments and Member Refunds

Steve Cogan, REDW, said he was recently selected the managing principal.

Jessica Bundy, REDW, reviewed the purpose and objectives of the audit as to ensure that the benefit payments are calculated correctly and paid accurately as well as assessing the process for refunding member contributions. She discussed the testing method and the samples used.

She reviewed REDW's observations and management's response noting that the processes for benefit disbursements and refunds appear to be designed to include multiple layers of reviewing thereby mitigating the risk of errors and fraud. There was one observation where documents were not included in member files and as a low risk it merely caused a delay and was verified. Management's response was provided.

Mr. Propst said this was a thorough audit and he was pleased with the outcome of the audit. He identified PERA's benefit and refund staff in the audience and thanked them for their excellent work. Joyce Rivera's work was highlighted as a contributor to the good outcome of the audit. Great progress has been made in terms of the accuracy of the payments going out to the members and he again commended staff.

Ms. French requested staff to introduce themselves to the Board and they received a round of applause.

2. Investment Policy Statement Compliance

Paul Madrid, REDW, said the overall purpose and objective was to focus on evaluating PERA's processes and controls around their investment policy statement. He reviewed the comparison process using the recommended standards by the CFA Institute and 457B and compared those to PERA's Investment Policy. REDW checked to ensure that all policy changes were documented and approved correctly. A manager from each asset class was checked with a review of their holdings and made sure those investments were in alignment with the contract as well as the IPS. The portfolio composition was compared to the IPS and the allocations were within those bands.

There were no reportable observations, state Mr. Madrid. Management was very helpful throughout the process. REDW provided minor recommendations to the

IPS which were included in the recently approved IPS. Although the real assets asset class was outside of the tolerance band, management adequately responded with a plan to address the issue.

CIO Grabel said the previous asset allocation had targets for the major asset categories with acceptable ranges. The reason real assets was out of target was it is a liquid asset category. It is used to fund alternative asset commitments and that portfolio is built over time with different vintage years. He reminded the committee of the plan pyramid with 90 percent of the fund is asset allocation, 7 percent is implementation and 3 percent is in manager selection. While all of PERA's management selections were good there was not enough diversification. Once the Listed Infrastructure is funded the category will be closer to range. Staff is working on a comprehensive timeline for implementing the new strategic asset allocation plan.

5. OTHER BUSINESS

None was presented.

6. ADJOURNMENT

Having completed the agenda, Chair Mayfield adjourned this meeting at approximately 11:15 a.m.

Approved by:


Dan Mayfield, Chair
Audit & Budget Committee

ATTEST:


Wayne Propst, Executive Director