

**New Mexico
Public Employees Retirement Association
Audit & Budget Committee Meeting
June 14, 2022**

1. Call to Order

This meeting of the New Mexico PERA Audit and 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 10:26am.

2. Roll call

The meeting attendance met quorum with the following members present;

Board Members Present

Diana Rosales Ortiz, Committee Chair
Valerie Barela
Loretta Naranjo Lopez
Francis Page

Board Members Absent

Shirley Ragin
Maggie Toulouse Oliver

Other Board Members Present

Claudia Armijo
Lawrence Davis
Tim Eichenberg
Paula Fisher

Staff

Greg Trujillo, Executive Director
Trish Winter, Executive Assistant
Anna Williams, Deputy Director
Kristin Varela, Interim CIO
Misty Schoeppner, Deputy General Counsel
Karyn Lujan, SmartSave Plan Manager
Lynette Kennard, CFO
LeAnne Larranaga-Ruffy, Interim Deputy CIO
Geraldine Garduno, Assistant General Counsel
Loretta Lopez, Assistant General Counsel
Sara Hume, Investments
Ron Gallegos, CTO

Others in Attendance

Caitlin Gutierrez, REDW

3. Approval of the Agenda

Francis Page moved to approve the agenda. Loretta Naranjo Lopez seconded the motion. The motion passed by a unanimous roll call vote as follows;

Valerie Barela Yes
Loretta Naranjo Lopez Yes
Francis Page Yes
Diana Rosales Ortiz Yes

4. Approval of April 12, 2022, Audit & Budget Committee Meeting Minutes

Francis Page moved to approve the April 12, 2022 Audit & Budget meeting minutes. Valerie Barela seconded the motion. The motion passed by a roll call vote of 3 to 1 as follows;

Valerie Barela Yes
Loretta Naranjo Lopez No
Francis Page Yes
Diana Rosales Ortiz Yes

5. New Business

A. Internal Audit – PERA Rio Enhancement Internal Audit Report

Ms. Caitlin Gutierrez, CPA, REDW gave a brief background on the RIO Enhancement internal audit. She stated several years ago, PERA had taken on a large project to look at ways to ensure participant data was correct and implement monitoring controls to ensure that the data remained clean.

RIO was determined to be a much more accurate representation of that participant data and the implementation of a process to continually monitor for potential errors via a report called the DQCP Master Report.

Ms. Gutierrez discussed the observations noted in the report: Data Queries and Data Monitoring Processes.

REDW put the risk at moderate for Data Queries and recommended an annual review of the queries to make sure that they reflect true processes. Management’s response was PERA continues to use the existing queries to continually identify issues and maintain the consistency of that data within RIO. Management believed that the risk is minimal and that the functionality is a continual process.

REDW stated the Data Monitoring Processes risk was identified as low because there are strong internal controls on how new data is coming in. Most of the data that’s currently flagging is old historical data. Management’s response was PERA agreed that the process is important. They will continue to use it and will develop procedures on how the data is to be worked to include timelines, roles, and responsibilities.

B. Internal Audit - Deferred Comp Memo Report

Ms. Guterrez indicated that the FY 2021 SmartSave Deferred Comp audit had a finding related to the employer monitoring timeliness of payments and adjustments. Once the finding had been issued, PERA reached out to REDW to request assistance in ensuring that good internal controls and effective monitoring processes were put in place.

Ms. Gutierrez pointed out that it was not a full internal audit as it was not in the audit plan. It was just a collaboration moment to offer assistance. The procedures performed focused on two areas; timeliness of reporting by the employers into the deferred comp plan, and monitoring of the manual adjustments made by VOYA to ensure that they were accurate.

In both cases, PERA worked with VOYA to have the reports developed that provide a more effective monitoring process of account activity and then implemented procedural steps to ensure monitoring over both reports was done timely. They also looked at all manual adjustments that had been performed by VOYA for FY 2021 to the present and did a full review of those adjustments to ensure they were accurate.

REDW recommended that a list be created and that the monitoring procedures be put in place, as well as periodic check-ins with employers who don't have historical contributions.

PERA had since implemented the listing and is working to develop the outreach procedures.

C. Internal Audit – Follow-up Matrix

Ms. Gutierrez informed the Committee that the purpose of follow-up is to go back through all outstanding observations of internal audits from the four-year audit plan and get an update on where the agency is regarding progress.

If the issues appeared ready to resolve, REDW does limited testing procedures. They focus on whether the internal control has been fixed or developed to correct the problem. Ms. Gutierrez showed several slides indicating all the observations that had been resolved.

Ms. Gutierrez stated that most the unresolved issues were related to the governance internal audit. REDW found that a lot of progress had been made there as well. They only needed some firming up to get the processes and function.

All Board charters had been updated. However, the Investment Committee had not performed its self-evaluation, so it was left unresolved.

D. Presentation on GASB 84 Fiduciary and GASB 87 Leases and their Impact on PERA

PERA CFO, Lynette Kennard, introduced herself and gave a brief overview of the two newly issued effective accounting standards; GASB 84 and GASB 87.

Ms. Kennard stated that GASB 84 is related to fiduciary funds and its objective is to improve guidance and identification of fiduciary activities and accounting and financial reporting of those activities. The standard was effective in 2021 and relates to schools and counties that have student activity funds or other types of funds that they're holding for others. For PERA specifically, there's an exception related to any type of fiduciary fund that is reported under the scope of other GASB guidance. That is PERA's pension plan.

PERA is currently excluded from GASB 84 and continues to report the fiduciary funds.

GASB 87 will be effective for FY 2022. Its purpose is to establish a single model for lease accounting standards based on the foundational principle that leases are financing of a right-to-use asset.

Two parties are involved in a lease transaction; a lessee and a lessor. Under this standard, the lessee will be required to recognize a lease liability and an intangible right-to-use lease asset. The lessor will be required to recognize a lease receivable and a deferred inflow of resources.

The FASB originated the single lease accounting model about five or six years ago. Public entities have already implemented a similar standard for FASB roles. Private entities will be implementing it soon. The GASB thus follows closely the public Financial Accounting Standard Board guidance.

GASB 87 was meant to be implemented in FY 2021 but was delayed due to the pandemic.

Ms. Kennard briefly reviewed what GASB 87 will look like for PERA. She reported that all PERA leases had been identified. PERA is a lessee in 10 of the leases and a lessor in one.

Ms. Kennard pointed out that most GASB standards only apply to material items and all the leases are not material to PERA. However, PERA must follow DFA guidance because it is a state agency.

Concerning GASB 87, PERA is not required to record short-term leases. For instance, the general services department lease is a 12-month lease that will not be considered in PERA's implementation.

Ms. Kennard further mentioned that DFA issued a memo on April 22, 2022, concerning its guidance. Under the guidance, DFA requires PERA to record leases with a net present value of \$25,000 or more. Looking at PERA's leases, five leases with Xerox will not require recording.

DFA also gave PERA a required, incremental borrowing rate of 3%, if it's not stated in the lease agreement. Lastly, DFA stated that inter-agency leases are excluded. They don't want all the agencies to record all the leases that will be eventually eliminated at the state level.

Four leases will be recorded; the Albuquerque office space, one Xerox copy machine, a mail machine, and a sorter. The numbers and the journal entries will be determined. Staff will record a lease liability and an intangible right-to-use asset related to those leases. They will also request feedback from the auditors regarding the implementation.

Ms. Kennard indicated that the overall effect of the implementation of the new standards will be minimal to PERA.

Chair Rosales Ortiz thanked Ms. Kennard for the report, adding that the changes will ensure accountability and transparency and see to it that PERA was complying with the reporting requirement. She mentioned that PERA had received some awards last year for good financial reporting.

E. FY 22 Budget Projection Through May 31st

Deputy Director, Anna Williams, reported that overall, there will be savings at the fund level for year-end.

In the 200 category, the state budget division, increased the PERA budget by \$52,000 for the Fiscal Year 2022. This was a result of the 3% compensation increase that employees received in April.

As of April 30, the vacancy rate continued to go down as new staff were hired. Hiring will continue over the next several weeks as several offer letters are out and new staff will be starting soon.

Some savings will be seen in the 300 category, the contractual services. They will be monitored continuously through year-end.

In the 400 category, PERA did a category transfer from the 300 contractual services to the 400 other services to make sure that there are enough funds to cover additional IT costs and equipment to ensure the network is up to date.

6. Adjournment

With no further business to discuss, Chair Rosales Ortiz adjourned the meeting at approximately 10:51am.

Approved by:

RATIFIED by Committee on August 9, 2022

Diana Rosales Ortiz,
Audit & Budget Committee Chair

ATTEST:



Greg Fujillo, Executive Director