**New Mexico**

**Public Employees Retirement Association**

**Audit & Budget Committee Meeting**

**August 25, 2022**

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 9:00am.

1. **Roll call**

The meeting attendance met quorum with the following members present;

**Committee Members Present Committee Members Absent**

Diana Rosales Ortiz, Committee Chair Maggie Toulouse Oliver

Valerie Barela

Francis Page

Shirley Ragin

**Other Board Members Present**

Claudia Armijo

Lawrence Davis

Paula Fisher

Loretta Naranjo Lopez

Steve Neel

**Staff**

Greg Trujillo, Executive Director

Trish Winter, Executive Assistant

Anna Williams, Deputy Director

Kristin Varela, Interim CIO

Misty Schoeppner, Acting 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**

Laura Beltran-Schmitz, Clifton Larson Allen

Brittany Smith

1. **Approval of the Agenda**

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

Valerie Barela Yes

Francis Page Yes

Shirley Ragin Yes

Diana Rosales Ortiz Yes

1. **Approval of June 14, 2022, Audit & Budget Committee Minutes**

Francis Page moved to approve the June 14, 2022 Audit & Budget Committee minutes. Valerie Barela seconded the motion. The motion passed by a unanimous roll call vote as follows;

Valerie Barela Yes

Francis Page Yes

Shirley Ragin Yes

Diana Rosales Ortiz Yes

1. **New Business**
2. **Introduction of Internal Auditors**

Chair Rosales Ortiz welcomed the Clifton Larson Allen team. Laura Beltran-Schmitz, the team’s director, formally introduced the firm as PERA's new internal audit team for the upcoming internal audit cycle.

Ms. Beltran introduced two managers, Brittany Smith and Emily Wilson, and stated that Ms. Smith had been part of PERA's external audit team for several years. She stated that, in addition to being a member of PERA's external audit team, the team has extensive experience with State agencies and internal audit processes. Additional team members will be added depending on the specialized nature of future projects. Ms. Beltran-Schmitz, Ms. Smith, and Ms. Wilson will serve as the projects’ core management team.

Ms. Beltran-Schmitz presented the phases of an internal audit and the team's current status on a chart. Phase 1 is initiation, in which the team meets everyone and determines the desires of the respective Board of governance and takes direction from them. Phase 2 is project risk assessment. This is the team’s current status. Ms. Beltran-Schmitz stated that they had met with management and Committee members several times to work on the risk assessment phase.

Each project is followed by reporting. The report will detail what was done, the process used, and any observations or areas for improvement that the named department may need. The team will also report to the Board or the Committee on a regular basis, either in writing or in person.

According to Ms. Beltran-Schmitz, the audit plan will have some flexibility and adaptability to allow for rearranging some of the projects based on priority over time. She mentioned that the risk assessment phase takes time and could take two to three months to complete.

Mr. Page welcomed Ms. Beltran-Schmitz and her team, noting that he had previously worked with her and found her to be exceptional. Chair Rosales Ortiz echoed his sentiments.

**5.B. FY24 Appropriation Request**

Deputy Director, Anna Williams, presented the FY24 appropriation request. She began by summarizing the appropriation request before delving into the specifics of the S-9.

Ms. Williams stated that PERA's FY24 appropriation request is $41.6 million, an increase of 8.35% over the FY23 operating budget. She stated that investment activity fees account for the majority of PERA's budget. Thus, the investment activity fee accounts for half of this year's increase, while the other half, about 4%, is due to higher costs of goods and services and PERA requesting one FTE in the personal services and employee benefits category.

Ms. Williams outlined some of the highlights of the FY24 appropriation request as follows;

* An increase of $755,000, or 8.35% in personal services in the 200 Category. This is related to legislative increases in FY23 that were not fully funded due to PERA’s vacancy rate in March 2022, PERA requesting one new FTE, and the 0.5% increase in PERA’s contributions in FY24.
* An increase of $1,756,400, or 6.76%, in contractual services in the 300 Category. This is related to an increase in investment fee activity related to the current higher market value of the investments in which those fees are calculated.
* An increase of $700,800, or 19.7% in Other, the 400 Category. This is related to an increase in IT cost and the higher overall cost in goods and services.

Mr. Page inquired about the revenue on FY22 Actuals. Ms. Williams stated that with the new system, BFM, DFA imports PERA’s trial balance but it is not the final numbers for FY22 actuals. These currently appear as negative numbers, however these numbers and are not part of the budget appropriation request. This is how DFA has configured the software.

Ms. Williams also stated that year-end journal entries had not yet been booked into share. The numbers were therefore not a true accurate. They were just showing what was in share when DFA pulled a query.

In response to Mr. Page, Greg Trujillo, Executive Director, stated that the State had upgraded BRS with the new BFM budget system. He added that staff were still figuring out the new reports and how the system worked.

Ms. Williams reported that the FY24 appropriation request for the 300 Category was $27.7 million. The FY24 appropriation request for the 400 Category was $4.2 million. Ms. Williams stated that the P-1 Program displayed FY23 and FY24 due to a glitch in the new BFM system. Staff had contacted DFA about it, and they were looking into it.

Francis Page moved to approve the FY24 budget provisionally, subject to corrections. Valerie Barela seconded the motion.

Ms. Williams inquired about the corrections mentioned by Mr. Page. Mr. Page stated that staff should contact DFA to resolve the financials and the P-1.

Ms. Ragin stated that entries were still being accepted. These would not necessarily be corrections, but rather timing adjustments. Based on Mr. Page's motion, she saw no reason to include a condition on the report.

Mr. Page stated that based on his past experience with the budget, he felt that the FY24 budget was not correct at face value.

Ms. Ragin's sentiments were echoed by Board Chair Claudia Armijo, who added that the motion should be specific. She stated that instead of using the word "corrections," the motion should specify whether it is an update or a change to the budget. She went on to say that the Board would vote on the same motion, and that staff should not be forced to deliver budget requests late. She also requested Ms. Ragin to make the motion.

Ms. Williams stated that this is the same procedure that PERA has always followed. The actuals are usually at point in time when the budget is being submitted. She stated that most state agencies will be submitting actuals at point in time because their audits and financials will not be completed until November.

Chair Rosales Ortiz mentioned that the Committee works closely with staff to constantly review the numbers. She requested that the motion be rephrased as suggested by Ms. Ragin.

Ms. Ragin informed the Committee that the initial budget submitted by an agency is the interim budget under the state DFA process because it is based on a projection of expenditures. An agency will complete the year-end actuals in September, which usually appear around this time. She also mentioned that the preliminary budget for Bernalillo County is submitted to the commissioners in April because it would take several months to enter the finite details that DFA requests into the system. The true actuals are done in September.

Ms. Ragin went on to say that the information was not inaccurate. It was just that the data was a point in time. As a result, her motion would be to accept the report as is.

Ms. Williams clarified that if approved, the appropriation request numbers will not change. They are the same proposals that will be presented to the DFA and legislators on September 1.

Mr. Page stated that based on his past experience with the state budget for 20 years, the FY24 budget did not appear to be accurate to him. He would not vote in favor of an approval motion.

Mr. Trujillo reiterated that only the system through which information is fed has changed, not the process. The statutory deadlines have not changed either.

Chair Rosales Ortiz reiterated that the FY23 year-end numbers will change because there were still journal entries that had not been made. The figures for FY24 will remain unchanged. She requested Mr. Page to restate his motion.

Francis Page moved to approve the budget, pending changes to the actuals to FY 21/22.

Ms. Williams reminded the Committee that with the new BFM system, the actual numbers are downloaded from share by the DFA. Staff did not have authority to change them. The DFA will be the one to upload a new trial balance.

Francis Page moved to approve the budget request, pending DFA changes to FY21/22 actuals.

Ms. Winter mentioned that, according to Robert's Rules, if a motion is made and seconded, a motion to amend supersedes the original motion. The vote on the amendment would take place before the vote on the original motion.

Ms. Ragin requested Mr. Page to elaborate on his motion, particularly the DFA portion. Mr. Page reiterated that the budget was inaccurate because the FY21/22 actuals were missing. He acknowledged the shortcomings of the new system but was unwilling to approve an inaccurate budget.

Chair Rosales Ortiz noted that the Committee had to consider reporting and timing issues when voting on the budget request.

Mr. Davis indicated that the action item was about the budget, not the actuals. He reiterated that most state agencies would not be done with their actuals till early November. He agreed with Mr. Page that the actuals should be accurate, adding that the State will be making numerous adjustments to ensure that all is accurate. He, however, urged the Board members to push the budget and meet the timelines.

The action item, according to Mr. Trujillo, was to approve the FY 24 appropriation budget request. He emphasized that the Board did not approve actuals. The auditors will certify the actuals, but the requested numbers will be considered by the executive and legislative branches.

Chair Rosales Ortiz reminded the Committee that the legislature had reduced PERA's budget submission last year. The same thing could happen this year. She mentioned that PERA staff had received outstanding financial reporting awards, indicating the high quality of the reports.

With no second on Mr. Page’s motion, the motion failed. Chair Rosales Ortiz called for a motion to approve.

Shirley Ragin moved to approve the FY24 appropriation request as submitted. Valarie Barela seconded the motion. The motion passed by a roll call vote of 3 to 1 as follows;

Valerie Barela Yes

Francis Page No

Shirley Ragin Yes

Diana Rosales Ortiz Yes

1. **Adjournment**

With no further business to discuss, Chair Rosales Ortiz adjourned the meeting at approximately 9.46 am.

Approved by:

RATIFIED by Committee on December 13, 2022

Diana Rosales Ortiz,

Audit & Budget Committee Chair

ATTEST:

![Diagram

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Greg Trujillo, Executive Director