

NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
AUDIT & BUDGET
COMMITTEE MEETING
July 11, 2017

This meeting of the Public Employees Retirement Board Audit & Budget Committee was called to order by Chair Jackie Kohlasch at approximately 9:00 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 and a quorum established with the following members present:

Members Present:

Jackie Kohlasch, Chair
Cathy Townes, Vice Chair
James Maxon
Claudia Armijo
Dan Esquibel

Member(s) Absent:

Tim Eichenberg

Other Member(s) Present:

John Melia
Dan Mayfield

Staff Members Present:

Greg Trujillo, Deputy Director
Karen Risku, Deputy General Counsel
Jude Pérez, Interim CIO
Anna Williams, CFO
Renada Peery-Galon, ASD Director
Dana David, Assistant General Counsel
Trish Winter, Executive Assistant
LeAnne Larrañaga-Ruffy, Director of Equity
Karyn Lujan, Deferred Compensation Plan Manager
Christine Ortega, Portfolio Manager
Marlena Riggs, Financial Budget Manager

Others Present:

Jessica Bundy, REDW
Abby Moser, REDW

2. APPROVAL OF AGENDA

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

3. APPROVAL OF CONSENT AGENDA

Having read the minutes and finding them in order, Chair Kohlasch requested a motion for approval.

Mr. Maxon moved to approve. Mr. Esquibel seconded. The motion passed by unanimous [4-0] voice vote. [Ms. Townes was not present for this action and arrived shortly thereafter.]

4. CURRENT BUSINESS

A. Procurement, Accounts Payable and 1099 Reporting Internal Audit

Jessica Bundy introduced herself and Abby Moser as PERA's internal auditors and directed the committee to the Procurement, Accounts Payable and 1099 Report dated April 2017. Ms. Moser said the internal audit included scrutiny of new vendors set-ups and selected a sample of two vendors out of the five that were present during the audit period. The testing included whether the procurement was compliant with the applicable regulations, policies and procedures, whether the W-9 was completed and the new vendor approved by the DFA and included in the SHARE system.

Ms. Moser said 11 vendors were sampled to test the state Procurement Code was followed. Forty disbursement transactions were reviewed to ensure the supporting documents were on file. Credit cards/P-cards were reviewed for monthly statements, reconciliations and underlying payment support. Travel and education reimbursements were reviewed with a sample size of 25 out of the 389 reimbursements. The new process for reconciling the 1099s was effective in improving the process. A validation process was performed to ensure there were no duplicate payments.

Ms. Moser said there were no reportable observations and the audit was very clean. She said PERA has great processes in place.

There were no questions on this item.

B. Internal Audit Plan – Executive Summary for Fiscal Years 2018 and 2019

Ms. Bundy said REDW was presenting a two-year plan with additional audit areas. REDW tries to be flexible with the plans to meet any management concerns. She outlined the planning and risk assessment that REDW employs. Internal audit areas for 2018 were identified as follows: investment performance reporting, information technology, organization communication and efficiencies, recurring census testing, recurring benefit payment testing and follow-up on outstanding observations. Fiscal year 2019 internal audit included employer payment transmittals and daily reconciliations, investment reconciliations and monitoring, customer service, recurring

census testing, recurring benefit payment testing, follow-up on outstanding observations and update of the audit plan and risk assessments. Additional audit areas may include the 457 plan administration and the RIO enhancements.

Mr. Esquibel informed the auditors that he only wanted factual data included in the audit and no hearsay. He took issue with REDW's statement, "Although we have included management's responses in our report, we do not take responsibility for the sufficiency of these responses or the effective implementation of any corrective action." It was his opinion that the statement invalidates the entire audit.

Ms. Moser said the statement serves to include management's responses to the audit observations with the caveat that REDW has not validated that information. Mr. Esquibel repeated that if the auditors cannot validate the information it should not be within the auditor's report. Ms. Moser recommended discussing this issue offline.

Ms. Armijo asked about the 2019 customer service audit and Ms. Moser said REDW would first review the process for tracking calls, review the logs and perform a sample test regarding timeliness in call back and resolution to the customer's issue. She understood the information was logged into the RIO system.

Deputy Director Trujillo said currently the call tracking is a combination of information in RIO, the external phone system and some tracked manually. The implementation of the workflow system will improve tracking all within a central system.

Mr. Maxon moved to approve the Internal Audit Plan as proposed by REDW. Mr. Esquibel seconded and the motion passed by unanimous [5-0] voice vote.

C. Revised - Audit & Budget Committee Charter

Renada Peery-Galon, ASD Director, said staff worked to revise the charter; however, the magnitude of changes was great enough to warrant the creation of a new charter. She noted the current seven-page charter was provided within the packet.

Ms. Peery-Galon highlighted some issues with the current charter:

- The current charter calls for an annual review and approval which has not been accomplished since 2010
- The charter has detailed and repetitive procedures throughout
- The charter fails to reflect the current activities of the Audit & Budget Committee nor does it address the changes in the New Mexico Administrative Code (NMAC) that have to do with responsibilities of the chief financial officer and chief procurement officer
- NMAC is explicit that the internal controls are the responsibility of the CFO in state agencies. In 2010 when the charter was established the internal auditor was a PERA employee that is now outsourced to a contractor through the RFP process

Anna Williams, CFO, said the revised charter follows the general guidelines of the American Institute of Certified Public Accountants (AICPA). The charter is intended to:

- Improve financial practices and reporting
- Help influence appropriate actions against fraud
- Encourage the government organizations to establish effective ethics and compliance programs
- Enhance internal and external audit functions

Ms. Peery-Galon said the new/revised charter is now one page consisting of a statement of purpose, organization/members, committee meetings and objectives, authority and ethics. She and Ms. Williams read each of the four sections.

Ms. Armijo said without a redline of the original charter or summary of the changes she found it difficult to determine the differences.

Ms. Peery-Galon said staff created an entirely new charter based on the AICPA guidelines and NMAC revisions. The original charter refers to the deferred compensation program which is now under the auspices of the Save Smart Committee.

Chair Kohlasch asked staff to review the current charter and highlight changes.

Ms. Peery-Galon referred to the following sections:

1.B. Insure the quality and integrity of financial information: That is constantly reviewed by external auditors.

1.C: Insure compliance with legal and regulatory requirements: That is too broad of a statement and she listed dozens of state oversight committees that PERA deals with.

1.F: Oversee the performance of PERA's internal controls: NMAC 2.20.5.8 requires that the CFO ensure the internal control system exists and is functioning properly.

Mr. Esquibel asked that staff provide a redline document with the appropriate NMAC citation. A complete charter change is a "big deal" and "affects a lot."

Ms. Townes said she recognized the over-broadness of the statements in the current charter and was pleased staff was refining them. It would be helpful if staff provided margin notes on the current charter. She understood the committee's concern that a seven-page charter has been reduced to one page.

Ms. Armijo concurred with Mr. Esquibel and Ms. Townes and asked that staff prepare a redline of the original charter with NMAC citations and comments in the margins. The proposed charter is very broad.

Mr. Esquibel suggested holding a study session for a review of the charter.

Ms. Peery-Galon said it had been seven years since the charter was reviewed and in the interim there has been the creation of the Smart Save Committee, use of an external auditor and extensive changes to NMAC regarding the CFO and CPOs' duties.

Mr. Melia suggested including the pertinent AIPCA and NMAC guidelines.

Chair Kohlasch suggested tabling this issue and requested that staff prepare the additional information as requested by the committee members and email it before the next meeting.

Mr. Mayfield noted that the issue of following charters came up in the governance audit.

Ms. Armijo said she has been reviewing the Board policies and charters which are important documents for committee members to understand. She said she was supported making changes to the charter but needed additional information to make that decision.

Ms. Peery-Galon said she would compile the requested information and added that there are compliance issues with the current charter and she hoped the committee would focus on the new charter.

Chair Kohlasch asked that committee members to review the materials that staff will provide, forward questions to staff and be prepared to discuss it at the next meeting.

Deputy Trujillo recalled a forum-type feature on the BoardPortal that could be used to facilitate questions and answers regarding the staff provided materials without creating a rolling quorum.

Ms. Armijo moved to table this item. Mr. Esquibel seconded and the motion to table passed by unanimous [5-0] voice vote.

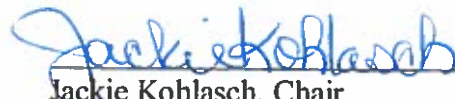
5. **OTHER BUSINESS**

None was presented.

6. **ADJOURNMENT**

Having completed the agenda, and upon motion and second, Chair Kohlasch adjourned this meeting at approximately 10:00 a.m.

Approved by:



Jackie Kohlasch, Chair
Audit & Budget Committee

ATTEST:



Wayne Propst, Executive Director