

NEW MEXICO
PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION
AUDIT & BUDGET COMMITTEE MEETING
June 8, 2021

This meeting of the Public Employees' Retirement Association Audit and Budget Committee was held on the date cited above via Zoom tele/videoconferencing. Diana Rosales Ortiz, Chair, called the meeting to order at approximately 9:04 a.m.

1. Roll Call

Trish Winter, Executive Assistant, undertook the roll call. Meeting attendance met quorum with the following members present:

Committee Members Present

Diana Rosales Ortiz, Chair
Lawrence Davis, Vice Chair
David Roybal
Loretta Naranjo Lopez

Committee Members Absent

John Melia

Other Board Members Present

Paula Fisher
Steve Neel
Shirley Ragin
Roberto Ramirez

Staff

Greg Trujillo, Acting Executive Director
Susan Pittard, General Counsel
Trish Winter, Executive Assistant
Anna Williams, CFO
Kristin Varela, Interim CIO
LeAnne Larranaga Ruffy, Interim Deputy CIO
Karyn Lujan, SmartSave Plan Manager
Jessica Trujillo, HR Manager
Geraldine Garduno, Assistant General Counsel

Others in Attendance

Cait Gutierrez, REDW Audit Manager

2. Approval of Agenda

A motion to approve the agenda was made by Mr. Roybal and seconded by Ms. Naranjo Lopez. The motion to approve the agenda passed by roll call vote as follows:

Diana Rosales Ortiz	Yes
Lawrence Davis	Yes
David Roybal	Yes
Loretta Naranjo Lopez	Yes

3. Approval of Consent Agenda

The consent agenda was rolled over to the next meeting.

4. New Business

A. Internal Audit – Years of Services

[Exhibit 1: Internal Audit – Years of Services]

Ms. Gutierrez, REDW, presented the Years of Service Internal Audit on the new service credit calculator implementation that occurred in December of 2020 following work to identify situations where the prior calculator had been experiencing errors and to enhance the whole process to reduce some of the manual needs on staff for service credit calculations. Ms. Gutierrez said in performing this audit they had looked at the controls in place over those balances to see how they were impacted by the implementation. She said they wanted to ensure that proper reviews were taking place as per the post-implementation plan to ensure the changes were appropriate. She said they also did some testing over service credit purchases to ensure that that process was functioning.

Ms. Gutierrez explained this internal audit was unique in that it was performed concurrently with implementation, rather than a typical audit of processes that have occurred in the past. She said this provided a unique perspective and helped to provide some collaboration with staff during the audit to ensure good practices were in place.

Ms. Gutierrez said REDW's recommendation is to continue performing the monthly reviews and documenting all resolutions identified so that PERA has that documentation in place.

Ms. Gutierrez said PERA Management's response agreed with the recommendation and updated the internal process to review and monitor changes to service credit. The QA Bureau is testing any new service credit mismatches identified with the report that is run, if issues are found then helpdesk tickets are created to fix them. Also, member services are utilizing data reports to validate service credit within RIO when completing member requests. And that a service change report is also reviewed daily and documented in member accounts to support the change.

Mr. Trujillo added that the service credit calculator implementation was the final piece of the RIO upgrade, following a multi-year deployment and huge undertaking with staff. He said the service credit calculator be of benefit to both staff and members by greatly reduce the number of manual audits that the members' services group has to do and giving the membership better service and more accurate data for their retirement.

Mr. Trujillo advised they will be sending out annual statements to update members, around September. He said the staff always receive a large number of calls from members after the annual statements are sent, which is wanted, as members see the data that PERA has and verify its accuracy, and they would be paying close attention to the volume of calls this year. He said he thought the service credit calculator was going to be good for PERA going forward.

Mr. Davis asked how many hours the audit had taken. Ms. Gutierrez said she did not have that information to hand, but could run a report after the meeting and email the numbers to Mr. Davis.

Chair Rosales Ortiz asked Mr. Davis to clarify and remind the Committee why it is relevant to know the hours spent on the audit. Responding, Mr. Davis said it was to evaluate the efficiency of the audit and allocation of resources. For example, although not likely, if the audit had taken several hundred hours, should resource be reallocated. He said that time spent on internal audits should be delivering value, and he wanted to make sure time spent was being spent efficiently.

Ms. Gutierrez commented that she was aware in the past year there was a contract discrepancy where they had budgeted almost 1,000 hours but as the contract only allowed for 860, they had to reduce internal audit hours in some areas bearing in mind the factors mentioned by Mr. Davis, that some areas deserve more resources than others. She said this was done by a risk assessment of where to spend time, and since then there have been adjustments based on additional risks found and areas of explanation that have been cleared with the Audit Committee.

Ms. Gutierrez asked if it would be beneficial to provide again the overview of anticipated hours and allocation of hours by area for FY22, along with the other information on hours spent to Mr. Davis by email. Mr. Davis confirmed this would be helpful.

Chair Rosales Ortiz asked to be copied in on the information sent to Mr. Davis, noting that the information on planned audit hours had previously been reviewed with Ms. Williams and Chair Page so she wanted to ensure everyone had the same information and was on the same page. She also noted for the record that the Years of Service audit hours are necessary to ensure there is a currency on records for when members need to cash out retirement funds.

B. Oversight Agencies that Contribute to the Operations of PERA

[Exhibit 2: Oversight Agencies that Contribute to the Operations of PERA]

Ms. Williams provided an overview of how state oversight agencies impact the operations of PERA.

Ms. Williams said one of the state agencies that impact PERA is the Department of Finance and Administration (DFA), and within that Financial Control Division (FCD) provides oversight to PERA. She said the FCD provides procedures, policies, processing documents for all state agencies to follow. The FCD also issues an annually updated Manual of Model Accounting Practices (MAPs), which includes areas that affect PERA.

Referring to the MAPs Cash Management requirements, Ms. Williams, explained how PERA meets the requirements and follows state statute.

For the MAPs Purchasing processes, Ms. Williams explained that for general service items less than \$5,000 PERA has to obtain two or three quotes, which are approved internally. For general services greater than \$5,000 but less than \$60,000, PERA has to obtain two or three quotes unless it is on the statewide price agreement. PERA staff approves internally and the DFA approves the purchase order. For a general service over \$60,000, an RFP is issued. For professional state services less than \$5,000 there are no contract requirements. For a professional service between \$5,000 to \$60,000, a contract is needed. Approval is by GSD and DFA approval of the PO. For a professional service greater than \$60,000 an RFP is issued. She said emergency procurements can be done if there is a safety issue, for example, burst water

mains at the agency, but these are rare. She said the sole source procurement is used if there no other vendor that offers a particular service, but PERA does not currently have any of those.

Regarding the detail on MAPs disbursements and payables, Ms. Williams said these requirements include that all cash disbursements or checks such as payments on invoices must be submitted and approved by PERA staff, and be approved by DFA staff before payment is issued to the vendor. For warrant cancellations, PERA must provide paperwork to DFA before they can cancel a warrant. Any travel reimbursements for the staff or Board members must be approved by staff and DFA before payment is issued. PERA uses a P-card to purchase goods and services such as office supplies or make travel arrangements. Payment of the P-card requires approval by PERA staff and DFA, who also undertake audits of paperwork after payment. Emergency procurement is also available, for example, to pay emergency building repairs, if needed.

Ms. Williams explained how MAPs asset management information procedures are applied to the acquisition of any capital asset over \$5,000. Any physical or tangible asset such as an IT server or the building must be properly recorded in financial statements, and a list sent annually to the external auditors. Financial statements must include proper depreciation of capital assets. PERA must also ensure that capital assets are safeguarded. For example, by ensuring buildings are locked and have security alarms. A physical inventory is compiled annually, which is verified at the end of the fiscal year by ASD. If PERA disposes of a capital asset, OSA must be notified, and potentially GSD is involved in the disposal.

On the MAPs financial statements and general accounting requirements, Ms. Williams explained that PERA must ensure their financial statements follow GASB. She said they also need to ensure SHARE reports are verified and working properly. PERA is required to maintain document numbering convention and keep a log of PO and voucher numbers, and every general entry for tracking purposes. MAPs requirements annual DFA approval of the Chief Financial Officer each fiscal year, and delegation of elected duties within the agency, which are monitored by DFA for noncompliance.

Ms. Williams explained the Department of Finance Administration's State Budget Division, which oversees the New Mexico state budget, oversees PERA. PERA is required to submit its proposed budget request for the next fiscal year by September 1st each year. The state budget division then makes executive budget recommendations to the Governor based on all the proposed budget requests. The New Mexico Legislature and the Governor then approve an appropriation bill based on the proposed budget requests. Based on that appropriation bill, PERA must then submit a state budget for the next fiscal year on or before May 1st.

Ms. Williams said that another state agency which impacts PERA is the State Purchasing Division within the New Mexico General Service Department. PERA must ensure they follow the state Procurement Code for purchasing and procurement of items. PERA operating contracts must be approved by the GSD Contract Division, and the PO approved by DFA. PERA can also use the State Purchasing Division's GSD Statewide Price Agreement for purchases of goods and services.

Speaking to the impact of the Office of the State Auditor on PERA, Ms. Williams said that the state auditor maintains a list of independent public accounting firms that are approved and eligible to conduct audits. When PERA goes out for an RFP, they must ensure the vendors that submit RFP proposals are on the state-approved list. PERA also submits an audit contract list by June 1st each year for OSA approval to ensure vendors on multi-year contracts are still on the approved OSA list. OSA also requires PERA to submit an annual financial audit report by the Wednesday before Thanksgiving. PERA is required to submit the schedule of employer allocation report by June 15th, prepare and post to the PERA website an employer guide for employers to use related to the schedule of employer allocations.

C. PERA's Budget Projections as of June 2, 2021

[Exhibit 3: Budget Projections as of June 2, 2021]

Ms. Williams presented the budget projection as of June 2, 2021. She said currently this showed a positive variance in all categories. She noted that there were currently six vacant positions under the 200 category. She said at the end of April-May there was a category transfer from the 300 categories to the 400 categories related to IT maintenance that was previously in contractual services and now required by DFA to be in the 400 categories.

Chair Rosales Ortiz thanked everyone for their attendance, and Ms. Williams and PERA staff for the information presented at the meeting. She said the educational items were also to make members and the public aware and mindful that there a process in place for managing purchasing.

5. Adjournment

Having completed the agenda, Chair Rosales Ortiz declared the meeting adjourned at 10:30 a.m.

Approved by:

Diana Rosales Ortiz, Chair
PERA Audit & Budget Committee

ATTEST:



Greg Trujillo, Acting Executive Director

Attached Exhibit(s):

[Exhibit 1: Internal Audit – Years of Services]

[Exhibit 2: Oversight Agencies that Contribute to the Operations of PERA]

[Exhibit 3: Budget Projections as of June 2, 2021]