

NEW MEXICO
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
AUDIT & BUDGET
COMMITTEE MEETING

March 14, 2017

This meeting of the Public Employees Retirement Board Audit & Budget Committee was called to order by Chair Jackie Kohlasch at approximately 9:35 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 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:

Loretta Naranjo Lopez
John Melia
Dan Mayfield
John Reynolds
Patty French

Staff Members Present:

Wayne Propst, Executive Director
Susan Pittard, Chief of Staff-General Counsel
Greg Trujillo, Deputy Director
Karen Risku, Deputy General Counsel
Renada Peery-Galon, ASD Director
Anna Williams, Chief Financial Officer
Dana David, Assistant General Counsel
Jude Pérez, Deputy CIO
Trish Winter, Executive Assistant
Karyn Lujan, Smart Save Plan Manager

LeAnne Larrañaga-Ruffy, Director of Equity

Kristin Varela, Portfolio Manager
Emily Lopez, Financial Specialist
Christine Ortega, Portfolio Manager
Mark Montoya, Investments Division

Others Present:

Paul Lium, Nationwide

2. APPROVAL OF AGENDA

Mr. Maxon moved to approve the agenda as presented. His motion was seconded by Ms. Townes and passed by unanimous [5-0] voice vote.

3. APPROVAL OF CONSENT AGENDA

Mr. Esquibel moved to approve and Ms. Armijo seconded. Chair Kohlasch noted that she had reviewed the minutes. The motion passed by unanimous [5-0] voice vote.

4. CURRENT BUSINESS

A. Update on FY16 Schedule of Employer Allocations

Anna Williams, Chief Financial Officer, reviewed the status of the schedule report of employer allocations and pension amounts. The FY16 GASB 67 amounts and disclosures were included in the FY 2016 financial statements within the audit report submitted to the State Auditor. The net pension liability has increased over the last three years; however, the GASB 67 uses the more volatile fair market asset value. The actuaries provided staff the schedule on March 9th and it is currently under review.

Ms. Williams noted that the schedule and report will be audited and that information will be presented to the Board in April.

B. Internal Audit Report – Years of Service

Jessica Bundy, REDW, reviewed the purposes and objectives of the audit to evaluate the process for calculation of active member service credits and the related areas. She highlighted the regulations and policies that REDW reviewed in making their audit evaluation. Over the RIO validation controls, REDW interviewed IT and contribution accounting to review the system configuration and identified errors within the employer data. She outlined the data analytics performed regarding service credits and used a sample of 60 active members. The data of those 60 were tested for agreement with the contribution history report and the active member service credit

report. She explained how REDW reviewed and verified the member accounts. Purchase of service credit was tested with 22 members who purchased credit. REDW also tested the segregation of duties to ensure that appropriate PERA staff was verifying the process.

Abby Moser, REDW, said they summarized their findings into one overall finding which is that there appears not to be sufficient control in place to validate or monitor active member service credit balances. That includes verifying the employer uploaded data which RIO can do. There were incorrect service credits which could result in an incorrect determination of retirement eligibility which REDW determined to be a high risk. Ms. Bundy said PERA's control on the backend when a member is preparing for retirement includes a rigorous audit which is good.

Ms. Moser said REDW's recommendations include PERA performing a comprehensive review of all the active member service credits. REDW observed most of the errors occurred during the system conversion to RIO and provided opportunities for process improvement.

Ms. French said it appears the majority of the errors can be attributed to the RIO system and she mentioned the extensive data cleansing efforts that PERA has undertaken. She lauded staff for their diligence working with the data and asked whether additional staff was necessary to address the problem.

Deputy Director Trujillo said the audit results are not a surprise to staff and last year PERA received a \$4.2 million appropriation to address the data issues. He said the problem is really the quality of the data as reported by employers and the implementation of RIO. Through an RFP process, ICON was selected and has been working on the data cleansing since September 2016. He outlined the phases of verification the contractor is providing as well as the governance verification portion.

Mr. Trujillo said the intended result of the project is for PERA to become proactive rather than reactive in ensuring that correct data is entered into the system. It is anticipated that staff will provide an in-depth review of the process at the Board retreat.

Mr. Esquibel brought up the ratio of workers to data and expressed concern that the poor quality of data may continue to be an issue well into the future. Mr. Trujillo pointed out that member information for those preparing for retirement is well vetted and he was confident in that manual process. Once the census and demographic data is addressed a more automated cleansing can occur.

Mr. Reynolds asked whether the data issue impacts PERA's liability as used by the actuaries. Mr. Trujillo said there is and added that in the last two actuarial reporting cycles total wages were reported rather than the eligible retirement wages.

Working with pensionable wages has improved the valuation. PERA has also improved its death data process.

Ms. French said the PERA member has a personal responsibility to keep up with their information. She asked the auditors whether the typographical errors found in the confirmation letters affect retirement or the quality of the data. Ms. Moser said the error was noted under process improvement opportunity and not an observation that would be tracked. Mr. Trujillo said RIO should be generating the letters which will reduce the risk of typos.

Executive Director Propst pointed out that PERA currently has four contractors assisting to improve RIO: ICON, HP, Linea and Softech. Many of the issues have to do with the automated validation process within the system that was not activated. Staff and the contractors are confident that RIO is an effective tool when used to its full potential. Once the RIO enhancement project is complete, PERA will have one of the best automated systems in the country.

Ms. Naranjo Lopez said the risk designated as potentially high concerned her greatly and she urged the agency to address the issues to avoid impacting any member's future. Mr. Trujillo assured the Committee that staff is very serious about addressing the issues.

C. Update Internal Audit Plan

Ms. Bundy reviewed the items that have been completed within the audit area and highlighted that accounts payable and 1099 reporting, follow-up on outstanding observations and update of audit plan and risk assessment should be completed by May 2017.

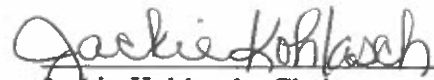
5. OTHER BUSINESS

None was presented.

6. ADJOURNMENT

Having completed the agenda, Mr. Maxon moved to adjourn, Ms. Armijo seconded and Chair Kohlasch adjourned this meeting at approximately 10:30 a.m.

Approved by:


Jackie Kohlasch, Chair

Audit & Budget Committee

ATTEST:



Wayne Propst, Executive Director