



INVESTED IN TOMORROW.

**Audit & Budget Committee Meeting**  
via Zoom

**Tuesday, December 8, 2020**

After SmartSave Committee

**Committee Members**

David Roybal, Chair

Lawrence Davis, Vice Chair

Dan Mayfield

Claudia Armijo

Loretta Naranjo Lopez

**AGENDA**

- 1. Call to Order**
- 2. Roll Call**
- 3. Approval of Agenda**
- 4. Approval of Consent Agenda**
- 5. New Business**

A. Benefit Payment Internal Audit

Informational

Jessica Bundy, CPA, Principal;  
Cait Gutierrez, CPA, Internal  
Audit Manager, REDW

- 6. Adjournment**

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**Consent Agenda**

Approval of Minutes of September 8, 2020 Audit & Budget Committee Meeting

Any person with a disability who is in need of a reader, amplifier, qualified sign language interpreter, or any other form of auxiliary aid or service to attend or participate in the hearing or meeting, please contact Trish Winter at 476-9305 or [patriciab.winter@state.nm.us](mailto:patriciab.winter@state.nm.us) at least one week prior to the meeting, or as soon as possible. Public documents, including the agenda and minutes, can be provided in various accessible formats. Please contact Ms. Winter if a summary or other type of accessible format is needed.

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# Public Employees Retirement Association of New Mexico

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*Benefit Payments  
Internal Audit  
August 2020*

**REDW**<sup>LLC</sup>  
CPAs | Advisors

**Public Employees Retirement Association of New Mexico  
Internal Audit  
Benefit Payments**

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# **Public Employees Retirement Association of New Mexico Internal Audit Benefit Payments Report**

## **INTRODUCTION**

We performed the internal audit services described below solely to assist the Public Employees Retirement Association of New Mexico (PERA) in evaluating processes related to benefit payments and member refunds. Our services were conducted in accordance with the Consulting Standards issued by the American Institute of Certified Public Accountants and the terms of our Professional Services Contract agreement for internal audit services. Since our procedures were applied to samples of reports and processes, it is possible that significant issues related to the areas tested may not have been identified.

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.

## **PURPOSE AND OBJECTIVES**

Our internal audit focused on evaluating processes and controls related to benefit payments to retirees including new retiree application processing, determination of member benefits, placement of members on payroll, and the direct deposit change processes. In addition, we tested user access and user terminations in Case Manager and RIO to determine the appropriateness and the timeliness of user termination.

## **SCOPE AND PROCEDURES PERFORMED**

**In order to gain an understanding of the processes and operations, we interviewed the following personnel:**

- Melinda Marquez, Member Services Bureau Chief
- Sandra Mirabal, Retirements Manager
- Jesse Godfrey, Payroll & Refunds Manager

**In order to gain an understanding of the processes, we read relevant portions of:**

- PERA Retirements: Preliminary Estimate, revised March 11, 2020
- PERA Retirements: Placing Member on Payroll, revised December 18, 2019
- PERA Payroll Procedures, revised July 20, 2020

**We performed the following procedures:**

***Retirement Applications:*** We selected a sample of 15 new retirement applications from a total population of 2,010 processed between July 1, 2019 and June 30, 2020. We tested to determine:

- The Case Manager checklist was completed and included the date the documents were received;
- Documents required on the checklist were scanned into the case file before the application review was completed;
- History log was uploaded to Case Manager and employment history detailed in the log agreed to service credit logged in Case Manager;
- Preliminary benefit calculation agreed to independent recalculation;
- The application was reviewed by someone other than the preparer; and
- Notes were added to the case reflecting any issues or variations to the process, if necessary.

***Placement of Member on Payroll:*** Utilizing the sample from above, we reviewed the case files in Case Manager and RIO and tested to determine:

- The employer certification was obtained and uploaded to Case Manager;
- Amounts in the employer certification agreed to amounts input into Case Manager;
- PERA staff deemed all required documentation to have been received before sending the final benefit letter;
- Termination date per Case Manager agreed to the termination date per the employer certification;
- Final average salary was calculated and agreed to the amounts input into Case Manager;
- Banking information was entered correctly and amounts paid during the first payroll agreed to the final benefit letter;
- The retiree was placed on payroll within 30 days of the retirement date;
- The application was reviewed by someone other than the preparer; and
- Notes were added to the case reflecting any issues or variations to the process, if necessary.

***Direct Deposit Changes:*** We selected a sample of 40 direct deposit change requests from a total population of 2,020 processed between July 1, 2019 and June 30, 2020. We tested to determine:

- A complete and signed direct deposit change form was uploaded to Case Manager;
- Demographic information detailed on the change form agreed to demographic information in Case Manager and RIO;

- Direct deposit details for the new account agreed to details input into Case Manager and RIO;
- Direct deposit change was made within 14 days of receipt of the change request and reviewed within 14 days after the change was made or notes were written in Case Manager indicating the reason for the delay;
- The direct deposit change was reviewed by someone other than the preparer; and
- An adequate amount of time was spent reviewing each step of the process to ensure procedures were followed.

**Case Manager User Access:** For the population of 47 Case Manager users as of June 30, 2020, we obtained Case Manager user access levels and tested to determine:

- User access appeared appropriate for job responsibilities assigned; and
- Case Manager controls limiting the ability of a case reviewer to audit their own file were in place and operating.

**Case Manager User Terminations:** For the population of 12 Case Manager users terminated between July 1, 2019 and June 30, 2020, we obtained Human Resources and Information Technology user termination dates and tested to determine that user access was revoked as of the date of termination.

## **OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

As a result of our testing, REDW identified the following observations:

### **1) Direct Deposit Changes**

In accordance with PERA's direct deposit change process, PERA staff are required to validate direct deposit change requests through the use of a Direct Deposit Change Form submitted by the member when making changes to the member's account. We identified there were two forms utilized, with the newer form requiring more information than the other. Our testing also determined for one of 40 direct deposit change requests, information on the voided check did not agree to information on the Direct Deposit Change Form and no notes existed in the case file to verify additional research had been performed to ensure the request was legitimate. Additionally, the direct deposit change policy did not address the review process to ensure it was robust enough to identify potential red flags within the documentation received.

**Potential Risk: Moderate** – The absence of incomplete and/or inconsistent documentation when processing direct deposit changes increases the risk that a fraudulent change may be made. In addition, the absence of policies and procedures that address the review process and items to consider when looking for potential fraudulent requests elevates this risk; however, there has been communication internally regarding items to be aware of when processing direct deposit changes thus reduces the risk to moderate.

**Recommendation:** While PERA has taken several steps towards addressing the risk of fraudulent direct deposit changes, we recommend they implement training on at least an annual basis to ensure employees who process direct deposit changes are aware of what to look for when a direct deposit request is submitted to reduce the risk a fraudulent change may be processed. Policies and procedures should also be updated to include a more robust review process to ensure reviewers are looking closely at items submitted and asking appropriate questions to ensure the request is legitimate. PERA should consider infusing the language from the internal memo sent in November 2019 regarding the precautions and guidelines for direct deposit changes into the payroll policies and procedures. Lastly, PERA should consider discontinuing use of the old direct deposit form and only allowing the new form to be submitted.

**Management's Response:** Management concurs with the recommendation and we will work on implementing a yearly training related to direct deposit changes for staff. PERA management will work on infusing the language from our internal memo into the policy and procedures for direct deposit changes. We will complete this by the end of FY 2021.

## 2) *Case Manager and RIO User Terminations*

Upon termination of an employee from PERA, user access should be disabled in both RIO and Case Manager on the date of termination to ensure access to sensitive data is removed immediately. This can be accomplished by disabling the user's Active Directory account. Our testing identified 6 of 12 user terminations where the disabling of the Active Directory account did not occur on the date of termination. Variances ranged from 2 to 30 days after the date of termination.

**Potential Risk: Moderate** – If users are not terminated timely from Case Manager and RIO through the Active Directory, employees may have the ability to access information in Case Manager and RIO should access to a PERA device be gained. This risk is reduced from high however as employee credentials only work on a PERA device therefore, terminated employees could not log in from their home computer or cell phone.

**Recommendation:** PERA should implement a process to ensure the Information Technology (IT) Department is aware when user access needs to be terminated. This communication should happen either prior to or on the day of the termination so IT can disable Active Directory access in a timely manner.

**Management's Response:** Management concurs with the recommendation and we will have our human resource staff send a HelpDesk ticket to IT when an employee leaves PERA. Management will also work on developing a checklist for managers for when an employee leaves PERA. We will complete this by the end of FY 2021.

## 3) *Case Manager Checklist*

Case Manager provides the ability for PERA to indicate which required documents are received and the date on which the documents were received via a checklist function within the system. PERA's Preliminary Benefit Estimate procedural manual identifies the use of the checklist as a required step in PERA's process over application processing. During our testwork of retirements, we identified 4 of 15 retirement cases in which the checklist was not utilized. In two of these instances, a document needed to substantiate benefit elections at a

later stage of the process was not obtained before completion of the application review stage. We also identified 2 of 15 retirement cases in which the checklist was utilized but not updated after obtaining additional information.

**Potential Risk: Moderate** - Inconsistent of use of the checklist function in Case Manager elevates the risk that a required forms may not be obtained or stages in the process not followed. In addition, there is no review at the checklist stage to ensure it was completed and all forms were present escalating the risk that documentation could be missed. The forms not obtained at this stage were, however, obtained at a later stage in which the payroll group performed its own verification of information which reduces the risk from the high.

**Recommendation:** PERA should implement a review of the checklist to ensure required documents are present and required steps were marked as complete. In addition, PERA should conduct training with employees regarding use of checklists. This training should emphasize the importance of documenting procedures performed to ensure the file is complete before moving on to the next stage of the process. PERA should identify employees who do not apply procedures in accordance with the PERA procedural manuals and conduct additional training with these employees.

**Management's Response:** Management concurs with the recommendation and will work on training staff to ensure the checklist is completed and they understand the importance of documenting procedures. We will complete this by the end of FY 2021.

\* \* \* \* \*

This report is intended for the information and use of the PERA management, the audit committee, members of PERA's Board and others within the organization.

We discussed and resolved other minor observations with management and received excellent cooperation and assistance from PERA during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico  
October 7, 2020

**NEW MEXICO**  
**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

**Audit & Budget Committee Meeting**

**September 8, 2020**

1. This monthly meeting of the Audit & Budget Committee Meeting was held on the date cited above via Zoom tele/videoconferencing. David Roybal, Chair, called the meeting to order at approximately 9:52 a.m., and adjourned at 10:19 a.m.

2. **Roll Call**

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

**Members Present:**

David Roybal, Chair  
Lawrence Davis, Vice Chair  
Dan Mayfield  
Loretta Naranjo Lopez

**Member(s) Absent:**

Claudia Armijo

**Additional Board Members:**

Paula Fisher  
Steve Neel  
Patty French

**Staff Members Present:**

Wayne Propst, Executive Director  
Greg Trujillo, Deputy Director  
Susan Pittard, General Counsel  
Misty Schoeppner, Deputy General Counsel  
Dominic Garcia, Chief Investment Officer  
Kristin Varela, Deputy CIO  
Karyn Lujan, SmartSave Plan Manager  
Anna Williams, Administrative Services Director/CFO  
LeAnne Larranage-Ruffy, Private Equity

**Others Present:**

Jessica Bundy, CPA Principal, REDW  
Caitlin Gutierrez, CPA Internal Audit Manager REDW

3. **Approval of Agenda**

Ms. Naranjo Lopez moved to approve the Agenda. Mr. Mayfield seconded. The motion to approve the Agenda was passed by unanimous roll call as follows:

David Roybal	Yes
Lawrence Davis	Yes
Dan Mayfield	Yes
Loretta Naranjo Lopez	Yes

**4. Approval of Consent Agenda**

Mr. Mayfield moved the motion to approve the Consent Agenda, seconded by Mr. Davis. The Consent Agenda was approved by unanimous roll call as follows:

David Roybal	Yes
Lawrence Davis	Yes
Dan Mayfield	Yes
Loretta Naranjo Lopez	Yes

**5. New Business**

***REDW Presentation re: Investment Manager Selection and Monitoring Internal Audit***

Ms. Caitlin Gutierrez, CPA Internal Audit Manager REDW, briefed the Committee on procedures and observations respecting Investment Manager selection and monitoring over liquid and illiquid investments.

**Observation 1: Documentation Issues**

Use of specific clauses which are to be included in a Request for Information packet as required by the Procurement Procedures Section 90. Ms. Gutierrez observed one instance where the standard template was not used, resulting in two clauses relating to authorized communications and agreement of the proposal being public record being omitted from the RFI. Ms. Gutierrez assessed this risk as moderate and recommended PERA implement a periodic, independent review over the due diligence checklist to ensure compliance with policy and that review be documented.

Management agreed with observation and will restructure one FTE on implementing procedure, with solicitation of position in December and implementation by January. The due diligence checklist will be immediately adjusted to assist the team in final documentation and reporting of exclusions/deviations. Final CIO execution will be contingent on its completion.

**Observation 2: Documentation of Process Deviations**

Several steps are involved in the procurement process for managers, and it may be appropriate for one of those steps to not be performed due to existing relationships in place. Testing discovered one instance in the RFP/RFI process where an on-site visit was not performed and one instance where the operational due diligence memo was not completed. . In the illiquid manager selection process, there were three instances where certain components were not completed. Ms. Gutierrez observed all instances had legitimate reasons for not being performed, but the justification was not documented on the due diligence checklist. Ms. Gutierrez assessed this risk as moderate and recommended PERA implement periodic due diligence checklist reviews to ensure documentation is in place to support those deviations from the process.

Management agreed and will implement an audit procedure to ensure all documentation is in place, as well as enhancing the due diligence checklist to assist the team in documentation and recording of those exclusions and deviations. The Investment team has already taken those proactive steps to implement checklist enhancements for all future RFP, RFI and illiquid manager selection.

**Observation 3: Documentation of Procurement Method Approval**

Procurement procedures require RFI documentation to be maintained for each procurement. Testing determined that there was no documentation of that approval for the procurement method utilized. Ms. Gutierrez assessed risk as low given CIO is an active participant through the entire process and recommended PERA add a line item to the due diligence checklist for CIO or General Counsel approval to ensure that documentation is maintained.

Management agreed, beginning with the stage zero process with a specific section for procurement method approval. They'll do that during the formal prism meeting to ensure that documentation of approval is in place. Also, a specific line item has been added to the due diligence checklist already.

Ms. Gutierrez identified a process improvement opportunity for the quarterly review of illiquid management fee analysis and review on a quarterly basis. She observed there was no documentation in place for who and when that review was performed. Ms. Gutierrez recommended documenting those dates as well as any additional research or variances and results from that review for information tracking purposes.

### ***Questions and feedback***

Ms. Naranjo Lopez enquired as to why the Board was not interviewed in this review, voicing a concern that there is little Board oversight. Ms. Gutierrez indicated the Investment Committee and investment team worked together closely to determine the required level of reporting, and the responsibility for reporting to the Board as a whole comes from the Investment Committee itself as opposed to staff.

Ms. Naranjo Lopez questioned how REW was monitoring organizational policies and procedures to prevent improprieties and asked for clarification on the monitoring process. Ms. Bundy explained they look to ensure the process in place is adhering to Board-approved policy and procedures and that appropriate documentation and due diligence was in place. Ms. Gutierrez clarified the role is not to oversee the investment decisions, rather to ensure the process is being followed.

Ms. Naranjo Lopez asked for the recommendations regarding the documentation review, and if there was a lack of Board oversight. Ms. Gutierrez did not observe a lack of Board oversight, merely some informalities present with documentation procedures. The investment team agreed and acknowledged this and is taking active steps to implement enhanced documentation procedures moving forward. Ms. Bundy expanded on the role of an internal auditor is to look for potential weaknesses and address them moving forward.

Ms. Naranjo Lopez requested a list of managers reviewed under liquid investments in writing, outlining Top 10 managers and bottom two. Ms. Gutierrez advised she would send sample selection to committee. Ms. Naranjo Lopez also requested the names of Board Members involved in the RFP in the two managers reviewed, and asked who was appointed to the RFP in writing. Ms. Gutierrez agreed to provide this information.

Ms. Naranjo Lopez further asked how top managers were selected for the RFI, who the five managers were and how two were selected. Ms. Gutierrez indicated it was a random sample selection. Ms. Naranjo Lopez requested the names of the two samples, along with the 22, and the reason why six managers were selected, an overview of the process and what questions were addressed. Ms. Naranjo Lopez further requested the selection of 135 and 14 final under management fees, and asked what investigation was done to ensure management fees were tied to good performance only. Ms. Naranjo Lopez sought recommendations. Ms. Gutierrez advised that was a Board and Management decision, not a function of the Internal Auditors.

Ms. Naranjo Lopez asked for the names of the managers who required corrective action, and the reason for corrective action for liquid and illiquid. Ms. Gutierrez requested Ms. Naranjo Lopez send her list of questions so the information can be provided.

Ms. Naranjo Lopez enquired if any Board Members were invited to attend at least one of the Limited Partner Advisory Committees, and stated her position that the Board attend such meetings and make recommendations. Ms. Gutierrez advised that was a Board Management decision to determine attendance at meetings. Ms. Naranjo Lopez emphasized the liability and responsibility of

the Board Members and recommended that the Board attend the all-PAC meeting. Ms. Naranjo Lopez further requested a copy of the RFI standard template, including the causes noted that were left out. Ms. Gutierrez referred Ms. Naranjo Lopez to the procurement policy to review specific clauses as identified in the report.

Ms. Naranjo Lopez asked if management has been responsive to the Internal Auditor recommendations. Ms. Gutierrez indicated management was extremely responsive throughout the entirety of the internal audit and always willing to go above and beyond the audit to identify any potential risk area. Ms. Gutierrez expanded that they were very honest with risk and questions and provide information in an extremely timely manner and take all recommendations seriously. Both sides understand the impact, the risk and how it can better things. Management has already taken proactive steps to address the observations and make sure they are improving those processes moving forward, and controls are in place to address observations made.

Ms. Naranjo Lopez asked if there were any areas of concern not reviewed due to budget or other limitation. Ms. Gutierrez could not recall, but committed to review binder and inform. Ms. Gutierrez requested Ms. Naranjo Lopez send her questions so they could each be addressed.

Mr. Davis asked for the determined cause for each observation. Ms. Gutierrez indicated Observation 2 and 3 that documentation is integral to Internal Auditors and that the depth of formal documentation was not as clearly understood as people deem documentation differently. This is why the recommendation is to bring it all into one concise, easy-to-find area. Observation 1 with the standard template was simply an oversight.

Mr. Davis asked if additional training or checklists were required, and stressed any deviation from policy and procedures needs to be documented. Mr. Mayfield concurred with Mr. Davis and thanked REDW for their work and expressed appreciation. Ms. Gutierrez noted the checklist has been enhanced with each step of the process and a requirement to document any deviation.

## **6. Adjournment**

Having completed the Agenda and with no further business to come before the Board, Ms. Loretta Naranjo Lopez moved to adjourn. Chair Roybal declared the meeting adjourned.

Approved by:

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David Roybal  
Chair, Audit & Budget Committee

ATTEST:

Exhibit(s) attached:

*Exhibit 1: PERA Investment Manager Audit Final*