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## Audit & Budget Committee Meeting

PERA Building • Senator Fabian Chavez, Jr. Board Room  
33 Plaza La Prensa • Santa Fe, NM 87507

**Tuesday, March 12, 2024**

following SmartSave Committee

### Committee Members

Valerie Barela, *Chair*  
Diana Rosales Ortiz, *Vice Chair*  
Laura Montoya

Francis Page  
Augustine Romero

### AGENDA

1. **Call to Order**
  2. **Roll Call**
  3. **Approval of Agenda**
  4. **Approval of Audit & Budget Committee minutes**
    - A. August 31, 2023 Audit & Budget Committee minutes
  5. **New Business**

A. 2024 Audit and Budget Committee Work Plan	Action	Anna Williams, Deputy Director
B. Investment Governance Internal Control Assessment Report	Informational	Emily Wilson, CPA, CFE; Kelly Burton, CPA, CliftonLarsonAllen
C. Follow-Up on Internal Audit Observations Internal Control Assessment Report	Informational	
D. Fiscal year 2024 Budget Projection through February 29	Informational	Anna Williams
  6. **Adjournment**
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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 (505) 795-0712 or [patriciab.winter@pera.nm.gov](mailto:patriciab.winter@pera.nm.gov) 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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# PERA Internal Audit Update

March 12, 2024

Emily Wilson, CPA, CFE, CIA

Kelly Burton, CPA



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# Investment Governance

May 3, 2023 – September 30, 2023

# Objectives and Scope

- Perform interviews with key personnel
- Review relevant PERA policies and procedures
- Evaluate the design and operating effectiveness of current processes and internal controls
- Conduct walkthroughs over various processes to evaluate the design and operating effectiveness of current processes and internal controls
- Propose future changes that mitigate risk and better support internal controls



# Work Performed

- Governance and Duty of Care
  - We evaluated overall investment governance at PERA to assess compliance with fiduciary responsibilities, laws and regulations and best practices related to investments.
    - Education – To determine reasonableness of educational materials and assess compliance with requirements as noted in Board policy section 7.10 Board Education, we reviewed a sample of educational materials from July 1, 2022, through July 1, 2023.
    - Investment Policy Statement (IPS) – Gained an understanding for the process taken for policy changes. We obtained the IPS to determine whether the policy had been reviewed within the last year and properly presented and approved by the Board.



# Work Performed

- Service Providers: Monitoring and Reporting
  - We reviewed compliance of a third-party service provider to evaluate reporting and monitoring
- Plan and Provider Service Fees
  - We reviewed PERA's Procurement Procedures for Investment-Related Services policy for compliance, explaining the process and procedure for identifying, awarding, and terminating investment service providers related to the management of the fund.



# Internal Audit Results

- Based on our internal audit procedures, we did not identify any observations or process improvements.



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# PERA Follow-up Audit

June 26, 2023 – October 10, 2023



# Scope and Objectives

The follow-up internal audit procedures were limited in scope compared to the procedures that would be performed in a full internal audit. Based on communication with the PERA Audit and Budget Committee on June 26, 2023, the following were deemed in scope for this follow-up internal audit:

- 2 Outstanding observations from the Governance, Fiduciary Responsibility, and Training internal audit report dated September 2015;
- 6 Outstanding observations from the Governance and Investment Policy Statement (IPS) Compliance internal audit report dated May 2020;
- 1 Outstanding observation from the Investment Performance Reporting internal audit report dated March 2021.



# Classifications of Observations

- **Resolved:** Adequate corrective action was taken to resolve the initial observation
- **Unresolved:** Corrective action was not taken to appropriately address the observations and recommendations initially reported

# Summary of Internal Audit Results

<b>Audit Area</b>	<b>Number of observations resolved</b>	<b>Number of observations unresolved</b>
<b>Governance, Fiduciary Responsibility, and Training (September 2015)</b>	0	2
<b>Governance and Investments Policy Statement (IPS) Compliance (May 2020)</b>	2	4
<b>Investment Performance Reporting (March 2021)</b>	1	0
<b>Total</b>	<b>3</b>	<b>6</b>



# Summary of Audit Results – Governance, Fiduciary Responsibility, and Training

## Governance, Fiduciary Responsibility, and Training

### Unresolved Internal Audit Observations:

1. Board Member and Committee Member Training
2. Board Policy Document and Committee Charters

# Governance, Fiduciary Responsibility, and Training— Unresolved

## Board Member and Committee Member Training

- **Updated Observation:** Although financial reporting presentations did occur in fiscal years 2021 and 2022, there were no financial trainings outside of the new board member orientation during fiscal year 2023.
- **CLA Recommendation:** We recommend implementing a training program for Audit Committee members to develop the necessary financial understanding and require the members of the audit committee to undertake education initiatives to improve their knowledge in financial reporting and related areas. We recommend that these trainings are completed by all board members at least annually.

# Governance, Fiduciary Responsibility, and Training— Unresolved

## Board Policy Document and Committee Charters

- **Updated Observation:** The Investment Committee Charter states that, “An annual evaluation of its performance (self-assessment) is performed according to criteria established by the Investment Committee and by Board Policies and Procedures.” CLA was unable to obtain evidence that a self-assessment was performed.
- **CLA Recommendation:**
  1. Assign the responsibility to an appropriate member of management to create and distribute work plans or calendars for the Board and each committee to ensure compliance with requirements in the Board Policy document and committee charters.
  2. Consider the use the AICPA Government Audit Committee Toolkit Audit Committee Matrix to guide the activities of the Audit Committee.
  3. Create and implement formal evaluation criteria for the Board and each of its committees.
  4. Clarify who has legal and policy compliance responsibility.
  5. Consider amending the Investment Committee Charter to define what decisions must be ratified by the Board, what reports must be provided to the Board and how often.



# Summary of Audit Results – Governance & Investments Policy Statement (IPS) Compliance

## **Governance and Investments Policy Statement (IPS) Compliance**

### **Unresolved Internal Audit Observations:**

1. Nonfinancial Conflict of Interest Reporting
2. Annual Evaluation of the Board
3. Gift Reporting
4. Education Affidavits

### **Resolved Internal Audit Observations:**

1. Annual Evaluation of the Executive Director
2. Communication and Decision Making

# Governance & Investment Policy Statement (IPS) Compliance – Unresolved

## Nonfinancial Conflict of Interest Reporting

- **Updated Observation:** The Board Policies and Procedures state “Board Members shall disclose their employment, union affiliations, and any other organizational or association affiliations to the Executive Director annually.” Our discussions with PERA staff determined that this process has not yet been completed.

Additionally, Board policy states “Board Members and the Executive Director shall disclose and refrain from participating in any discussion or decision concerning an investment, benefit, or other action in which the Board Member has an interest or conflict, including abstention from voting regarding the action.” There does not appear to be a process in place to identify and discuss conflicts of interest to ensure fiduciary responsibilities are not impaired.



# Governance & Investment Policy Statement (IPS) Compliance – Unresolved

## Nonfinancial Conflict of Interest Reporting

- **CLA recommendation:**
  1. Develop a nonfinancial conflict of interest form.
  2. Put into practice requirements under Board Policy section 3.33.
  3. Establish a method of monitoring conflicts of interest that arise throughout the year to ensure they are addressed timely.
  4. Provide Standards of Conduct training to Board Members on an annual basis.
  5. Consider tasking the Rules and Administration Committee with enforcing the PERA Standards of Conduct during Board and committee meetings as well as during interactions with PERA Membership and the general public.

# Governance & Investment Policy Statement (IPS) Compliance – Unresolved

## Annual Evaluation of the Board

- **Updated Observation:** Board Policy Section 2.00 Board's Role and Duties subsection 2.19 requires the Board to evaluate their performance annually at the retreat and take any steps necessary to improve Board operations. Our testing determined the Board did not conduct an evaluation at the July 2023 board retreat.
- **CLA Recommendation:** PERA should implement a process to conduct a formalized self-evaluation annually to ensure compliance with Board policy section 2.00. This should be performed annually at the Board retreat and all Board Members should be required to participate. Consider identifying a facilitator for this process to help make this evaluation effective and helpful for PERA.



# Governance and Investment Policy Statement (IPS) Compliance–Unresolved

## Gift Reporting

- **Updated Observation:** Our testing determined that PERA Gift Reporting Forms were not completed for the six-month period ending June 2023.
- **CLA Recommendation:** PERA should implement an independent review of Gift Reporting Forms for compliance purposes by designating an appropriate individual from management to review and sign off on the forms to ensure any potential issues are addressed. Additionally, this will aid in ensuring the statutory reporting requirements are met. We recommend the Board policies be updated to better define the timing of when reports are filed so the deadline is clear.

# Governance and Investment Policy Statement (IPS) Compliance–Unresolved

## Education Affidavits

- **Updated Observation:** According to NMAC 2.80.200.21, each Board member shall annually certify his or her compliance with the statutory requirements of NMSA 1978, section 10-11-133(F) via an Education Affidavit on or before December 31<sup>st</sup> of each calendar year. Our test work determined that PERA was not in compliance with statutory requirements for the year ended December 31, 2022.
- **CLA Recommendation:** PERA should implement a process to ensure all Education Affidavits are certified prior to the December 31<sup>st</sup> deadline. An internal review should be performed on each form submitted to ensure Board Members are receiving the required amount of education to ensure compliance with training requirements.

# Summary of Audit Results – Investment Performance Reporting

## Governance and Investments Policy Statement (IPS) Compliance

### Resolved Internal Audit Observations:

1. Investment Committee Communication



# Current Internal Audit Projects

- Records Management
- Employer Outreach and Education



**Emily Wilson, CPA, CFE, CIA**

*Principal*

505-222-3585

**Kelly Burton, CPA**

*Senior Associate*

505-222-3517



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## MEMORANDUM

**TO:** Audit and Budget Committee  
**FROM:** Anna Williams, Deputy Director  
**DATE:** March 12, 2024  
**SUBJECT:** 2024 Audit and Budget Committee Work Plan

The purpose of the Audit and Budget Committee is to assist the PERA Board (Board) in fulfilling its fiduciary oversight responsibilities by participating in the selection and evaluation of PERA's independent external and internal auditors. The Committee also provides oversight and approval of PERA's budget and general oversight of risk management activities. The Committee assists in keeping the Board informed of any legal and accounting developments that impact the presentation and reporting of financial information, obtaining information or briefings from the internal and external auditors, and working with PERA executive staff to develop recommendations and advice to the Board.

The following is the 2024 Audit and Budget Committee Work Plan:

March 12, 2024

- 2024 Audit and Budget Committee Work Plan
- Internal Auditors – Investment Governance and Follow-Up on Internal Audit Observations Reports
- Fiscal year 2024 Budget Projection through February 29

April 25, 2024

- Fiscal year 2025 Operating Budget

June 11, 2024:

- Internal Auditors – To be determined
- Annual review of the Audit and Budget Committee Charter
- Presentation on GASB 96 Subscription-Based Information Agreements and the impact to PERA
- Fiscal year 2024 Budget Projection through May 31

August 29, 2024:

- Fiscal year 2026 Appropriation Request





December 10, 2024:

- Internal Auditors - To be determined
- Memorandum of Continuity
- Fiscal year 2024 Budget and Actual Statement
- Fiscal year 2025 Budget Projection through November 30

Also, the following items must be presented to the Board in 2024 as informational or action items:

April 25, 2024:

- Fiscal year 2025 Operating Budget

August 29, 2024:

- Fiscal year 2026 Appropriation Request

The work plan is subject to change based on the progress of projects and the needs of the Audit and Budget Committee.



**PERA**

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## PERA Fiscal Year 2024 February 29, 2024 Budget Projection

Category	FY24							
	Beginning Budget	Budget Adjustment Requests/Special Appropriations	Adjusted Budget	Expended Year-To-Date	Encumbered Year-To-Date	Projected Expenditures to Year End	Total Projected Expenditures	Projected Variance
200	9,913,440	300,000	10,213,440	6,306,095	-	3,786,070	10,092,165	121,275
300	25,968,800	-	25,968,800	9,488,710	15,513,323	106,201	25,108,234	860,566
400	4,258,200	-	4,258,200	2,246,619	1,254,154	929,282	4,430,055	(171,855)
<b>Total</b>	<b>40,140,440</b>	<b>300,000</b>	<b>40,440,440</b>	<b>18,041,424</b>	<b>16,767,477</b>	<b>4,821,553</b>	<b>39,630,455</b>	<b>809,985</b>

### 200 Category – Personal Services and Employee Benefits

- As of February 29, 2024, PERA had 6 vacant positions and an FTE vacancy rate of 6.9 percent.
- PERA’s Fiscal Year (FY) 2024 operating budget has a budgeted vacancy rate of 3.75 percent.

### 300 Category – Contractual Services

- The Contractual Services category includes \$24.2 million in investment contracts for consultants and money manager fees.

### 400 Category – Other

- The projected budget shortfall is due to encumbrances for new boilers in PERA’s Santa Fe office. PERA will review the projected variance at the end of March and will complete a category transfer of approximately \$175,000 from the Contractual Service category to the Other category, if needed.

