

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD

AUDIT COMMITTEE MEETING

March 16, 2022 – 9:00 a.m.

Call In (Audio Only): 1-907-202-7104

Code: 147 082 531#

- I. Call to Order**
- II. Roll Call**
- III. Public Meeting Notice**
- IV. Designation of Chair**
- V. A. Approval of Agenda**
 - B. Approval of Minutes – December 1, 2021**
 - C. Approval of Minutes – January 13, 2022**
- VI. Public / Member Participation, Communications and Appearances**
(Three Minute Limit)
- VII. Reports**
 - A. Employer Audits**
Kevin Worley, Chief Financial Officer, Division of Retirement & Benefits
Nimeri Denis Division of Retirement & Benefits
Melanie Helmick, Division of Retirement & Benefits
 - B. Report on Delinquent/ Late Filing Employers**
Kevin Worley, Chief Financial Officer, Division of Retirement & Benefits
 - C. Material Weakness on Forward-Looking Actuarial Assumptions**
Kevin Worley, Chief Financial Officer, Division of Retirement & Benefits
 - D. Compliance Report and Update**
Rosa Sanchez, Compliance Officer
 - E. Cost Allocation**
Pamela Leary, Director, Division of Treasury
Kevin Worley, Chief Financial Officer, Division of Retirement & Benefits
- VIII. Review of Committee Charter** *(per Charter)*
- IX. Future Meetings**
 - A. Calendar Review**
 - B. Agenda Items**
 - C. Requests / Follow-Ups**
- X. Other Matters to Properly Come Before the Committee**

XI. Public / Members Comments

XII. Adjournment

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
AUDIT COMMITTEE MEETING

Videoconference

MINUTES OF
December 1, 2021

Wednesday, December 1, 2021

ATTENDANCE

Committee Present: Gayle Harbo, *Chair*
Lorne Bretz
Rob Johnson
Allen Hippler
Donald Krohn

Committee Absent:
None

ARM Board Trustees Present:
Dennis Moen

IAC Members Present:
Dr. William Jennings

Department of Revenue Staff Present:
Zachary Hanna, Chief Investment Officer
Pamela Leary, Director, Treasury Division
Brian Fechter, Deputy Commissioner
Scott Jones, Head of Investment Operations, Performance & Analytics
Ryan Kauzlarich, Accountant V
James McKnight, State Investment Officer
Alysia Jones, Board Liaison
Grant Ficek, Business Analyst

Department of Administration Staff Present:
Ajay Desai, Director, Division of Retirement and Benefits
Jim Puckett, Deputy Director, Division of Retirement and Benefits
Kevin Worley, Chief Financial Officer, Division of Retirement and Benefits
Traci Walther, Accountant V, Division of Retirement and Benefits

Nimeri Denis, Audit & Review Analyst II, Division of Retirement and Benefits
Melanie Helmick, State Social Security Administrator, Division of Retirement and Benefits
Emily Ricci, Health Care Policy Administrator, Division of Retirement and Benefits
Amanda Pillifant, Commissioner's Office

ARMB Legal Counsel Present:

Benjamin Hofmeister, AAG, Department of Law

Consultants, Invited Participants, and Others Present:

Melissa Beedle, KPMG
Elizabeth Stuart, KPMG
Michael Holmes, Maximus
William Maus, Maximus

I. CALL TO ORDER

CHAIR GAYLE HARBO called the meeting of the ARM Board Audit Committee to order at 9:15 a.m.

II. ROLL CALL

MR. BRETZ, MR. KROHN, MR. JOHNSON, CHAIR HARBO, and MR. HIPPLER, were present at roll call.

III. PUBLIC MEETING NOTICE

ALYSIA JONES confirmed that public meeting notice requirements had been met.

IV. A. APPROVAL OF AGENDA

MR. JOHNSON moved to approve the agenda. MR. KROHN seconded the motion. The agenda was approved without objection.

B. APPROVAL OF MINUTES: October 15, 2021

MR. JOHNSON moved to approve the minutes of the October 15, 2021 meeting. MR. KROHN seconded the motion. The minutes were approved without objection.

V. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS & APPEARANCES – None.

VI. REPORTS

A. DRB Audited Financial Statements

MS. BEEDLE began the presentation with slide 3. She noted that they had completed the audits of PERS, TRS, JRS, SBS and DCP and had issued unmodified audit opinions and that they had not yet completed the audit of the National Guard system due to issues with the census data.

MS. BEEDLE said the slide listed the required communications as set out by GASB auditing standards and that there were no significant unusual transactions identified during the audit. She noted no adverse communications related to financial presentation or disclosure omissions. She said

the review of non-GAAP policies found no matters that resulted in a material error or a material impact on the financial statements. She said they did not have changes to the planned audit strategy and no matters to report related to significant account policies.

MS. BEEDLE noted that the next slide showed more required communications with no substantive matters to report. She noted that the following slide showed one uncorrected audit misstatement. She explained that in September they had presented the Treasury results and had been close to completion of the audit of the invested assets report. She explained subsequent to that date and when they issued that report, additional valuations came in related to private equity that related to the June 30 statements that they had provided in the past, which was approximately \$79 million of private equity investment to increase that balance.

MS. BEEDLE noted the next slide explained part of the reason why National Guard was not yet completed. She explained that as part of their review they went through the assumptions that were used to calculate total pension liability disclosed in the footnotes of the financial statements. She said that initially the discount rate used to calculate the liability was 7 percent but through reviews and discussions with Buck and a review of the investment allocation, 7 percent was not supported by the investments in National Guard. She said they worked with management and Buck and decreased the assumption to 5.75 percent which increased the total pension liability by \$2.5 million for National Guard.

MR. JOHNSON asked if they were making a determination to lower the discount rate for that system, what would cause them to act in the same fashion with respect to PERS, and TRS; MS. BEEDLE said they reviewed that for PERS, TRS, and JRS so while that discount rate was supported for those plans, it was not supported for the National Guard

MR. WORLEY clarified that when the Governmental Accounting Standards Board issued the new GASBs, the idea was to separate the funding portion of contributions versus the accounting.

MS. BEEDLE said that as a result of the misstatement and its size, it was considered material to the National Guard system and required adjustment. She noted that they had identified a material weakness in internal controls related to it, that management did not have an adequate process in place to review the appropriateness of the discount rate assumption. She said that GASB 68 did require benefits accounting related to the funding allocation and required that the forward-looking assumptions be reviewed on an annual basis which did not happen. She stated that they planned to issue a qualified opinion on the National Guard Plan similar to what we issued in the past.

MR. WORLEY stated that they were still dealing with the census issues with National Guard, but the process was getting better, and they were discussing a memorandum of agreement with the Department of Military and Veteran Affairs.

CHAIR HARBO asked if they had a turnover in personnel that created the problem; MR. WORLEY said they did, especially 10 years ago when they were sending troops overseas. He said he thought the MOA would alleviate the issue.

MS. BEEDLE moved on to the next slide which showed the significant accounting policies and practices and said there had been no changes to the policies and they did not identify any selection bias. She said for significant accounting estimates, they would focus on the biggest ones, which were the total pension liability, net pension liability and total OPEB liabilities. She noted that as part of their audit they reviewed a lot of the data that went into calculating the liabilities as well as the assumptions and found that with most of the systems, the assumptions were reasonable and supported.

MR. WORLEY said they were adding this step in the areas where they had the issuance of prior disclosure in related financial statements.

MS. BEEDLE said they made changes to the audit this year in the way of data analysis and shared summaries of the changes. She explained that there were two areas, contributions, and benefit payments, and for each system they use Power BI for additional data analysis. She said that enabled them to analyze and identify outliers and any areas where there were specific questions. She said they used Alteryx and Power BI to run and compare last year's census data and this year's data to identify any unusual changes that were made, such as a correction in a date of birth. She said it also allowed them to identify additions to PERS and TRS that were unexpected additions. She noted that they were expecting to be able to further integrate more data analysis into their audit and provide more analytic inspection.

MS. BEEDLE noted that the last few slides provided some dashboards of things they had seen. She explained one related to PERS, and that each bar represented a \$10,000 group, with the line being the number of members and the height of the bar was the total dollar amount. She said they had them for each of the other systems.

MR. HIPPLER asked what she would suggest as a modification to the procedures and policies to avoid material weaknesses in the future; MS. BEEDLE said that for the National Guard, there was the difference in the discount rate and the specific assumption used in the accounting evaluation and that she was not sure if that discount rate would make a difference.

MR. WORLEY said they look at it annually, and with GASB, they do a valuation report that they send to the Actuarial Committee. He noted that there were two different things, the accounting presentation versus the actuarial funding of the plan, that they were not tied together.

MS. BEEDLE explained that MR. WORLEY works with Buck to implement the process to review them for the National Guard and other plans every other year for the accounting side.

MR. WORLEY said that the packet contained the final audit reports at pages 27 through 291, as well as the management representation letters that the Division Director, MR. DESAI and the Chief Pension Officer, MR. PUCKET, the Health Care Administrator, MS. RICCI, and himself sign.

B. GASB 68/75 PERS & TRS Allocation Schedules for Participating Employers

MR. WORLEY noted that due to timing of the reports, the BEARS project and staffing shortages due to personal or family-related medical issues, they were behind on the allocation schedules but will have a telephonic follow-up the week of January 10th. He said they had completed their side of the

schedules and they would have to go through a review by KPMG. He said there should be no problem issuing them in January for the participating employers that need them for September to December year-end reporting.

CHAIR HARBO commented that because some employers are on a calendar year, some on a fiscal year, January should work for everyone; MR. WORLEY said that was correct.

C. Internal Audit Report

MR. WORLEY introduced TRACI WALTHER, a new staff person that worked with the Division as an Accountant V, which was a new compliance position that they had requested approximately three years prior. He explained that she oversees the day-to-day work of the internal audit group comprised of MS. HELMICK and MR. DENIS and she would be participating in the Audit Committee. He said that she also has worked related to the actuarial valuation and with the BEARS project, including compliance work on benefit payments and are they within the Internal Revenue Code.

MS. HELMICK said that for calendar year 2021 they had finished seven PERS employers and five TRS employers and had added the Housing Authority in Barrow. She said that they had just finished up the report; that it was a clean report.

MS. HELMICK said that they had been working on State Social Security Administrator work and that she and MS. WALTHER had attended the National Conference of State Social Security Administrators in September, which they found to be a great learning experience. She said they had received a request for a federal Social Security vote from the Association of Village Council Presidents Regional Housing Authority in Bethel, who were not a PERS participant but were in Social Security and were voting to cover their retirement system members.

MS. HELMICK said that on the last page of their presentation, was a list of what they were going to do for state fiscal year 2022. She noted that they were always six to 12 months behind when they audit and were reporting for that as well. She said she and MS. WALTHER were approved to go on another trip for state fiscal year 2022; they will be going to Fairbanks to perform three audits.

CHAIR HARBO asked if that would be the only audit for this year that they were performing; MS. HELMICK confirmed that it was.

MR. KROHN asked if there were any delinquent contributions; MS. HELMICK said there were, and they could provide a list.

CHAIR HARBO noted that usually the delinquent accounts were very small; MR. WORLEY confirmed that was the case.

D. Committee meeting with Independent Auditors

CHAIR HARBO asked if anyone objected to moving to item VII, with no objections they moved on.

VII. Renaming the CAFR to ACFR

MR. WORLEY noted that the attachment was located on page 294 of the PDF Board packet,

renaming the Comprehensive Annual Financial Report to the Annual Comprehensive Financial Report. He said they had reported on it at the last two committee meetings, that the GASB passed on October 19th, GASB 68 renaming the CAFR to the ACFR.

MR. WORLEY said that they are required by Alaska Statute to provide an Annual Comprehensive Financial Report by December 31. He said they provide the report to the Trustees, the governor's office, and the Alaska Legislature. He said that KPMG does review it prior to being published to verify the financial information had not changed.

VIII. Cost Allocation Discussion – Maximus

MR. WORLEY said that as per the request from ARMB CHAIR JOHNSON, a discussion was had with Maximus about the cost allocation plan which was administered by the Division of Finance. He said that they had two representatives from Maximus at the meeting and introduce MR. MICHAEL HOLMES, vice-president of financial services and MR. WILLIAM MAUS, the manager of Maximus.

MR. HOLMES introduced himself and said that he had been with Maximus for 32 years focusing on state cost allocation and federal negotiation. He noted that his slides were full of information but would not discuss every item.

MR. MAUS introduced himself and said that he had been working with the State of Alaska since 2009.

MR. HOLMES said that some of the items for the presentation were an explanation of what SWCAP was and how it was tied to the 2 CFR. He said that SWCAP was an acronym for Statewide Cost Allocation Plan which reflected any costs or billings from central agencies to individual state agencies that manage federal programs and federal grants. He said it gives the federal government a single source of oversight for any state-related costs that were applied to federal programs.

MR. HOLMES explained there were two sections of the SWCAP. He said section I represented allocated costs and the most common was related to statewide human resources, finance and accounting and procurement. He said that all operations incur costs, and the federal statues allow states to perform an allocation process that identified costs to each benefiting agency. He said the second part of the SWCAP was the Section II costs, which they called the direct-billed service such as IT services, building leases, insurance, and pension/retirement contributions.

MR. HOLMES explained that retirements for self-insurance funds, fringe benefit costs, and pension and post-retirement health insurance plans, they were supposed to report the government unit's funding policies if they were different from actuarially determined rates, the pension plan's costs accrued for the year, the amounts funded and the date of funding, a copy of the actuarial report with assumptions, the plan trustee's report, and a schedule of activity showing the value of the interest cost associated with late funding.

MR. HOLMES said that prior to 2014, state, local and tribal governments operated under OMB Circular A-87, education institutions were under A-21 and non-profits were under A-122. He said

they all basically had the same level of information, but some things were not consistent across all three cost principles. He said in 2004 the federal government eliminated use of the circulars and collapsed all three into the 2 CFR Part 200, Subpart E, for cost principles and Appendix VII. He noted that 2 CFR Part 200 stood for the Code of Federal Regulations which established a model where any future changes would be managed through the Federal Regulations.

MR. HOLMES said that within the federal regulation was the definition of allowable costs. He said one of the key points was that the cost must be necessary and reasonable for proper and efficient performance of federal programs. He listed some of the allowable costs as staff salary and wages, fringe benefits, depreciation, and most standard operating expenditures. He also listed unallowable costs as bad debt, capital outlay, contributions to reserve funds, R&D costs, fines and penalties, lobbying, and performance audits.

MR. HOLMES explained that when they prepared the SWCAP for the State of Alaska, they review all the transactional details to ensure that none of the unallowable costs were included in the report. He noted that if they see these types of transactions in their costs, they exclude them, identify them as unallowable, but that they are used to reconcile with total and actual financial statements.

MR. HOLMES then explained that Maximus had been in business for 40 years and was the nation's leading cost allocation firm, that they had experience in negotiation with the U.S. Department of Health and Human Services cost allocation services, and that they had prepared the Alaska SWCAP since 1989.

MR. HOLMES said that Maximus had updated the narrative cost allocation plan for the Department of Administration Retirement and Benefits CAP in 2006, that it was a narrative and an Excel-based model. He said that it was now completed annually by the Division of Retirement and Benefits and Maximus reviews it for compliance. He said the purpose was to allocate DRB's indirect costs in the various sections and units to the benefiting retirement plans.

MR. JOHNSON noted that MR. HOLMES was describing the CAP for the Division of Retirement and Benefits, then asked if it was pursuant to a different contractual relationship with them than their obligations to develop a report for the federal government, or was it that their reports to the federal government form the basis for them to do the allocations internally to the Division; MR. MAUS said that when they are under contract by the state to provide a SWCAP Section II report, they worked as a collector and gatherer of the data. He said they compiled the data and ensured that they provided the federal government with all of the information they required. He said that in this case, DRB was doing their own cost allocation and that Maximus had no direct contractual relationship with them; MR. JOHNSON asked if they advise the Division on whether their allocation process and procedures were accurate; MR. MAUS said they did not have a specific scope of work to perform that role.

MR. MAUS explained that much of the SWCAP process was providing the Feds with a high level of reporting, and if they came back to the state, Maximus would potentially assist DRB in pointing out methods of justifying their split.

MR. MAUS said that the second cost allocation plan incorporated into SWCAP was the Department

of Revenue's Treasury Division cost allocation plan that was supported by an Excel model calculation of how costs were allocated to the benefiting retirement funds and other funds. He said DOR Division of Treasury completed the report annually which was then reviewed by them for compliance and incorporated into the SWCAP for federal submission.

CHAIR HARBO asked if the report was completed at the end of the fiscal year; MS. LEARY said it was completed and had been completed ahead of the fiscal year. She said they use their March 31 asset base to determine what the cost allocation baseline was for the following year.

MR. MAUS noted that the SWCAP filing process was six months after the close of the fiscal year.

IX. Periodic Self-Assessment

CHAIR HARBO requested the Committee turn to the question in the packet and read them to see if anyone had any comments.

CHAIR HARBO read the questions as follows:

"Are discussions at the committee level meaningful, and if not, what can be done about it?" No response given.

"Is the committee touching on key issues?" No response given.

"Is the committee giving appropriate time to key issues?" No response given.

"Does the work of the Audit Committee appropriately meet the needs of the Board by reducing necessary Board meeting time spent on matters that come before the Audit Committee?" MR. HIPPLER responded by saying that he thought the answer to the question was yes. MR. JOHNSON said he thought they could infer the answer to all questions is yes unless there is some material issue.

X. Review Committee Charter - None.

XI. Future Meetings

A. Calendar Review

CHAIR HARBO noted that per MR. WORLEY, there would be a teleconference the week of January 10, 2022.

B. Agenda Items

MR. JOHNSON expressed his appreciation for Maximus' presentation and said that he would like to hear from DOR and DRB on how they made decisions on what was allocated between statewide agency claims and what was allocated to the retirement boards, or the Department of Law. He wanted to know who made the determinations and if there was any outside advice being given. CHAIR HARBO asked if he would like that for the Audit Committee and the Operations Committee; MR. JOHNSON said that it sounded like an audit issue; MS. LEARY said that she was prepared to discuss that.

MS. LEARY explained that their cost allocation methods were captured as examples in the

presentation. She said that the basis of the cost allocation was quite simple. She said that they have a certain number of people that were allocated, they had telephone costs that were allocated by the number of people that had telephones and the like.

CHAIR HARBO asked what about people working from home during COVID, did the cost remain the same; MS. LEARY said the costs did remain the same if they were paying for the costs; MR. WORLEY noted that they were still paying rent for the office space; MS. LEARY noted that were still using the phones.

MR. BRETZ said that for the next meeting, he would like to discuss delinquent accounts and requested that it be a standard item on the agenda going forward.

C. Requests/Follow-Ups

MR. JOHNSON stated he would develop a couple questions regarding cost allocation that could be used as the basis for a brief presentation.

MR. HIPPLER said that for the next meeting he would like to see follow-up on the material weakness that was identified in the audit and how that could be rectified.

XII. OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE - None.

XIII. PUBLIC/MEMBER COMMENTS - None.

XIV. ADJOURNMENT

MR. BRETZ moved to adjourn the meeting. MR. KROHN seconded the motion. The motion passed without objection.

The meeting was adjourned at 10:20 a.m.

ATTEST:

Corporate Secretary

Note: An outside contractor recorded the meeting and prepared the summary minutes. For in-depth discussion and more presentation details, please refer to the recording of the meeting and presentation materials on file at the ARMB office.

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
AUDIT COMMITTEE MEETING

Videoconference

MINUTES OF
January 13, 2022

Thursday January 13, 2022

ATTENDANCE

Committee Present: Gayle Harbo, *Chair*
Lorne Bretz
Rob Johnson
Allen Hippler
Donald Krohn
Bob Williams

Committee Absent:
None

ARM Board Trustees Present:
Lucinda Mahoney, Commissioner

IAC Members Present:
Ruth Ryerson

Department of Revenue Staff Present:
Zachary Hanna, Chief Investment Officer
Pamela Leary, Director, Treasury Division
Ryan Kauzlarich, Accountant V
Alysia Jones, Board Liaison

Department of Administration Staff Present:
Jim Puckett, Deputy Director, Division of Retirement and Benefits
Kevin Worley, Chief Financial Officer, Division of Retirement and Benefits
Christina Maiquis, Accountant V, Division of Retirement and Benefits

ARMB Legal Counsel Present:
Benjamin Hofmeister, AAG, Department of Law

Consultants, Invited Participants, and Others Present:

Melissa Beedle, KPMG
Elizabeth Stuart, KPMG
David Kershner, Buck

I. CALL TO ORDER

CHAIR GAYLE HARBO called the meeting of the ARM Board Audit Committee to order at 10:00 a.m.

II. ROLL CALL

MR. BRETZ, MR. HIPPLER, MR. JOHNSON, MR. KROHN, MR. WILLIAMS, and CHAIR HARBO were present at roll call.

III. PUBLIC MEETING NOTICE

ALYSIA JONES confirmed that public meeting notice requirements had been met.

IV. A. APPROVAL OF AGENDA

MR. JOHNSON moved to approve the agenda. MR. WILLIAMS seconded the motion. The agenda was approved without objection.

V. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS & APPEARANCES – None.

VI. REPORTS

A. GASB 68/75 PERS & TRS Allocation Schedules for Participating Employers

MR. WORLEY said the first report was the PERS Defined Benefit Pension Plan. He said it was the schedule of employer and non-employer allocations. He then advanced to slide 12 and said \$3,668,449,000 was the net pension liability that they reported within the PERS June 30, 2021, schedule. He said they worked with Buck to prepare a report and allocate the \$3.668 billion of liability across all employers. He said for each of the numbers reported in the financial statements as of June 30, 2021 issued by the Division and audited by KPMG, they would allocate either net pension liability or the net OPEB liability.

MR. HIPPLER asked if an entity that was not in the state of Alaska was reporting a liability but was deficient on its payment, did that impact the State of Alaska liability reported on the ACFR; MR. WORLEY said that in this report they looked at future contributions through 2039 for that employer not just current year receipts. He said the employers that had been deficient were the really small employers so the impact to the allocation was very minimal.

MR. WORLEY moved on to page 35 of the PDF related to PERS Occupational Death and Disability (ODD) Plan for the PERS DCR. He said that because it was an actuarially determined rate, there was funding based on that rate, and they accounted for the fund separately, there was a net pension asset on that item that they allocated. He said for PERS ODD they looked at employer contributions for the year and determined the allocation percentage. He said the total contributions of \$5.3 million were allocated out to 100 percent.

MR. WORLEY said that they used two different methodologies. He said with the PERS Defined Benefit Pension, they looked at contributions over a period of time. He said the Governmental Accounting Standards Board had allowed two different methodologies to be used by systems to allocate. He said one of them was present value of future contributions, which they used for PERS, TRS, defined benefit, pension, and healthcare because of the way they had the additional state contributions. He added that they looked through Fiscal Year 2039 and then present-valued them with the assistance of Buck and their schedule. He said for the smaller plans, which were fairly new, they just looked at the employer contributions because there was no impact on additional state contributions.

MR. WORLEY said in the case of the PERS DCR they had a net pension asset that was allocated to employers, including the State of Alaska of \$2.5 billion. He said each of the participating employers would be reporting. He said the State of Alaska would have PERS and TRS because they participated in both plans. He noted they'll have footnote disclosures and dollar amounts on their financial statements for their participation in PERS.

MR. WORLEY moved to page 68 of the PDF, which showed the PERS Alaska Retiree Healthcare Trust Allocation Schedule. He said that because they were overfunded there, they have a net OPEB asset or other post-employment benefit asset to allocate out.

MR. WILLIAMS asked whether overfunded amounts get distributed out to all the different entities; MR. WORLEY said that when Buck does the actuarial analysis of the Retiree Medical Plan, the money does not get returned to the employers, it was just a financial reporting component that they had to show, similar to a net pension liability. The report would say that there was an asset in the Retiree Medical Plan because it was overfunded and that would eventually decrease over time. He said there was no money moving back and forth between plans. He said they do not give the money back and they do not collect money on it. MR. WILLIAMS asked if each entity was looking at it as an asset or as a liability that they have, based on the calculations, but there was not money actually being transferred back and forth; MR. WORLEY said that was correct.

MR. WORLEY said the TRS DB Pension was on page 111 and asked if there were any questions or comments. There being none, he moved on to page 132 for the TRS DB Healthcare Trust and asked if there were any questions. He commented that TRS ODD and TRS RMP were very similar to what they saw in PERS and asked if there were any questions. There were none.

B. Division of Retirement and Benefits Audited Financial Statements – NGNMRS

MR. WORLEY said that the National Guard Naval Militia Retirement System was not included in the packet because they were continuing to work with the Department of Military and Veterans Affairs and was finalizing the audit. He said they were waiting on items related to member data that the Guard maintains. He said they were down to four members within the Air Guard and were unable to get the data.

MR. WORLEY said that he was working with the deputy commissioner of the department to work out a Memorandum of Agreement and try to figure out how they could get the information. He said

one of the areas of concern was membership data. When a person who was in the Alaska National Guard moved out of state they were unable to track them and confirm their information that KPMG was auditing. MR. WORLEY said he was working on how they can track these people that transfer out of Alaska.

CHAIR HARBO asked if it was turnover in the department or administration; MR. WORLEY said that he had been told it is because even though they are part of the National Guard, each state maintains separate records that was not accessible by the State of Alaska. He said he had also tried to work with members directly to get the information but had a problem with them thinking he was a scammer.

MR. WORLEY said that they were going to work with DMVA to see if they could help with the missing pieces to get the information needed to do the audit.

COMMISSIONER MAHONEY asked if they had an HR or accounting department that he could contact; MR. WORLEY said that he was working with the deputy commissioner of DMVA and found out that each of the Guard units had a commander and a report staff who were responsible for all the reporting and tracking; COMMISSIONER MAHONEY told him to let her know if he needed help, she would try to reach out. She said it was important to be able to complete the financial statements.

MR. WILLIAMS said he was confused as to how it was more challenging than what all the other municipalities and school districts had to deal with; MR. WORLEY said that municipalities and school districts give them their payroll data every payroll period. The National Guard does not give information like that, they give an annual report in the form of a list of all their actives at the end of the fiscal year. He said when someone leaves, there is no access to the records to determine where they went. He said it was a challenge due to the vesting requirements for the program. He said they must have 20 years in the guard and at least five years of Guard service in the state of Alaska. If they move out of state, there is no way to track them, and they are assuming that they are accruing service and may be eligible later for a pension benefit but are unable to confirm because they cannot access the data.

MR. WORLEY said they do have access to computer systems but not the source documents showing when they came in and when they left. The Guard members have them. He said the National Guard was service based, not payroll based so it makes it difficult to confirm time in the system as a National Guard member.

MR. JOHNSON asked what the implications were to the State of Alaska or the systems – was there any meaningful impact; MR. WORLEY said no, it was such a small piece of the state it would have no impact on bonds or the like. He said it would have an impact on the actuarial analysis that Buck conducts. He also said that it may put them over on their liability, but that plan was very well funded. He said in terms of members, that maybe they were over-accruing, maybe the funding percentage was higher; MR. JOHNSON asked if the committee could suggest a percentage of error so that Buck was not spinning their wheels and spending dollars on such a small amount; MR. WORLEY said that would be a good discussion to have with MR. KERSHNER; MR. BRETZ asked if there were a total actives of about 3,900 as of June 30, 2020; MR. WORLEY said they had just been dealing with samples and the issue was with four samples within the Air Guard which had 2,200 actives..

MR. JOHNSON asked KPMG that if they were just using a sampling, if they would agree on some sort of percentage fix and be done with it; MS. STUART said that what she thought he was proposing was to adjust the recorded amount to reflect the difference. She said the information was not available to determine whether they could or not. She said the sample size was 10 people and four were not able to provide the information. She said it was more of an audit evidence in the plan issue than it was an error. She said four out of 10 people was a very high rate of lack of support; MR. JOHNSON suggested trying a larger sample size of 200 or more and if there were only 10 out of that, maybe they would have a solution.

CHAIR HARBO asked who chose the sample size; MS. STUART said they chose the sample size, and that a lot of thought goes into determining the size. She said maybe a legislative audit, the retirement system audit, or internal audit could do a more extensive sampling. She reiterated that the recorded amount was not necessarily wrong, it was the information to support the recorded amount was not available because those members had taken their physical packets with them.

MR. WORLEY said that he had discussed that issue with the deputy commissioner at DMVA about how they could obtain or maintain a system that tracks when a member has joined the Guard and how much service they have within the state, which was what they were trying to confirm for them to be included as an accrued liability for a pension benefit.

MR. WILLIAMS said that if the Alaska National Guard would share payroll data that would give quite a bit of information. He said that the other issue was the ability to get a pension would be showing documentation of 15 years of Air Guard service outside, after the 5 years of service in Alaska which was unique because it is the years of service in the state that counts towards it for everyone else. He said he did not see that problem ever getting solved.

CHAIR HARBO suggested MR. WORLEY work with COMMISSIONER MAHONEY and try to talk with DMVA about this. MR. WORLEY said he would and also include COMMISSIONER VRANA.

VII. Future Meetings

A. Calendar Review

CHAIR HARBO said the next meeting for the Audit Committee would be in March in Juneau, if they meet in Juneau and then asked if there were any questions on the calendar. There were none.

B. Agenda Items

CHAIR HARBO asked if there were any future agenda items and noted that MR. JOHNSON had one that he had asked for.

MR. JOHNSON said that was correct, that he had some questions relating to allocation and would submit those questions through MS. JONES. He then asked what MR. WORLEY or KPMG wanted them to do – were they at a position where, having had the meeting were they going to refer the reports in their draft form to the Board; MR. WORLEY said it was just for the Audit Committee to hear of any concerns or comments that KPMG, as the external auditor, would have, questions about reporting

or disclosures, but that referral to the full Board for adoption was not necessary.

C. Requests/Follow-ups – None.

VIII. Other Matter to Properly Come Before the Committee

CHAIR HARBO asked if there were other matters to properly come before the Committee; MR. WORLEY said the Division, as required by Alaska Statute, had to present what they had discussed prior, which was the Annual Comprehensive Financial Report that was issued prior to December 31. It was posted on the Division website, and they were in the process of getting hard copies printed. He said they still distribute hard copies to Trustees and some legislators preferred the bound version. He said they anticipated those to be issued by the end of the month.

IX. Public/Member Comments - None.

X. Adjournment

MR. WILLIAMS moved to adjourn the meeting. MR. BRETZ seconded the motion. The motion passed without objection.

The meeting was adjourned at 10:55 a.m.

ATTEST:

Corporate Secretary

Note: An outside contractor recorded the meeting and prepared the summary minutes. For in-depth discussion and more presentation details, please refer to the recording of the meeting and presentation materials on file at the ARMB office.

Division of Retirement & Benefits

Alaska Retirement Management Board

Audit Committee

March 16, 2022

Audit Unit Report

This report contains information on work performed through February 28, 2021, by the Division of Retirement and Benefit Audit Unit. The Audit Unit is under the supervision of CFO Kevin Worley. The daily activities of the Audit Unit are overseen by Accountant V, Traci Walther.

A. Audit Unit Overview

The Audit Unit audits all employers in PERS and TRS for compliance with state regulations and federal code. Per the DRB audited financial statements for Fiscal Year (FY) 2021, there were 151 PERS employers and 57 TRS employers with employer contributions totaling \$723.5 million.

Besides PERS and TRS audits, the Audit Unit also audits for SBS and DCP compliance (when applicable) and reviews the employers' social security and Medicare withholding for compliance with mandatory and voluntary rules.

B. Employer Audits Performed to Date

	<u>PERS Employers</u>	<u>TRS Employers</u>
CY 2022	02	01
CY 2021	11	05
CY 2020	17	08
CY 2019	10	04
CY 2018	39	14
CY 2017	25	13
CY 2016	17	07

C. Audit Chart SFY 2022

Seven SFY 2022 audits have been completed to date. One audit travel trip was approved for SFY 2022. Helmick and Walther (training trip) audited three entities in Fairbanks in December 2021; all other audits will be performed via desk.

Akutan, City of	Juneau, City & Borough	Palmer, City of
Alaska Gateway School District	Ketchikan Borough	Petersburg Borough
Alaska Housing Finance Corporation	Ketchikan Borough School District	Petersburg City Schools
Bering Straits School District	Ketchikan, City of	Petersburg Medical Center
Bethel, City of	Klawock City School District	Shaktoolik, City of
Chugach School District	Klawock, City of	Sitka Borough School District
Copper River School District	Kodiak Island Borough	Sitka, City and Borough of
Craig City Schools	Kodiak, City of	Soldotna, City of
Craig, City of	Kuspuk School District	Southeast Island School District
Fairbanks North Star Borough	Lower Kuskokwim School District	Tagiugmiullu Nunamiullu Housing Authority
Fairbanks North Star Borough School District	Lower Yukon School District	Thorne Bay, City of
Fairbanks, City of	Matanuska-Susitna Borough	Tlingit-Haida Regional Housing Authority
Hydaburg City Schools	North Pacific Fisheries Management Council	Toksook Bay, City of
Iditarod Area School District	North Pacific Rim Housing Authority	Utqiagvik, City of (formerly City of Barrow)
Ilisagvik College	North Slope Borough	
Inter-Island Ferry Authority	North Slope Borough School District	

Highlighted = Completed

D. Common Employer Audit Issues to Date (in order of prevalence)

1. Unallowable compensation
2. Unallowable PERS Peace Officer classification participation

E. Other Duties Performed by Audit Unit (Helmick)

1. Certified Association of Village Council Presidents Regional Housing Authority retirement system members referendum and prepared Modification No. 190 to the State of Alaska Section 218 Agreement with Social Security Administration.
2. Institute Internal Auditors – Alaska Chapter Committee Work
3. National Conference of State Social Security Administrators – Committee Work

Division of Retirement & Benefits

Alaska Retirement Management Board

Audit Committee

March 16, 2022

Delinquent Employers

At the December 2021 ARM Board audit committee meeting, Trustee Bretz requested the Division provide the audit committee with a list of employers that were delinquent in filing their required payroll reports per Alaska Statute (AS) 39.35.610 and .770 [PERS] and AS 14.25.065 and .370 [TRS].

The following PERS employers are delinquent reporting as of Friday, February 25, 2022:

1. Nenana City School District – last reported Pay Period End date 12/25/2021
2. Yukon Flats School District – last reported PPE date 10/31/2021
3. City of Kachemak – last reported PPE date 07/31/2021

No TRS employers were delinquent as of the date of the data pull on Friday, February 25, 2022.

Division of Retirement & Benefits

Alaska Retirement Management Board

Audit Committee

March 16, 2022

Material Weakness on Forward-Looking Assumptions

At the December 2021 ARM Board audit committee meeting, KPMG presented the results of the June 30, 2021, annual financial statement audits of the following systems:

- Public Employees' Retirement System (PERS)
- Teachers' Retirement System (TRS)
- Judicial Retirement System (JRS)
- Deferred Compensation Plan (DCP)
- Supplemental Benefits System (SBS)

The above reports were issued unmodified opinions.

However, there was one outstanding audit report:

- National Guard and Naval Militia Retirement System (NGNMRS)

NGNMRS continues to be a concern from an audit perspective. We will continue to work with the Department of Military and Veterans' Affairs (DMVA) on documentation needed for audit purposes that DMVA should maintain going forward. We will be meeting with them over the next couple months to resolve audit concerns.

Also reported during the KPMG discussion with the ARM Board audit committee, there was an issue related specifically to NGNMRS regarding the following:

“Management does not have adequate processes in place to review the appropriateness of forward-looking assumptions.”

As the committee will recall, the Governmental Accounting Standards Board (GASB) issued pension and post-employment benefits other than pension reporting requirements for audited and issued financial statements. The two statements are GASB 67 – Financial Reporting for Pension Plans and 74 – Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans, which requires plans / systems to report actuarial information in the footnote disclosure as well as required supplementary information.

As part of the development of the GASB reports that Buck Global LLC prepares for the systems, management must meet with Buck annually prior to the development / preparation of the GASB

information. After discussion with KPMG and their internal actuary, DRB will meet with Buck to discuss the assumptions to see if there is any concern that the assumptions used in the development of the GASB 67 / 74 reports should be modified in the year of the audit.

For the June 30, 2021, annual financial statement audit of NGNMRS, KPMG noted that the NGNMRS initially used an unsupported 7.0% discount rate to calculate the Total Pension Liability. As a result of the audit, DRB re-evaluated the rate with Buck and lowered the discount rate to 5.75%. The lowered rate resulted in a \$2,573,000 increase to the Total Pension Liability reported in the financial statement disclosure.

In our initial development of reports, the GASB reports were prepared and used for note disclosure in the audited financial statements. Upon meeting with KPMG's internal actuary, he determined that the NGNMRS discount rate should be adjusted downward based on their analysis of the investment allocation and earnings of NGNMRS, since these are forward-looking for a 30-year period. After that discussion, DRB and Buck discussed and determined that the reports would be adjusted to reflect the lower discount rate of 5.75%. Our discussion regarding all of the other plans in question were on-point and no other revisions were necessary.

CONCLUSION

Buck and DRB will meet prior to commencing work on the GASB 67 / 74 reports needed for the annual audited financial statements for PERS, TRS, JRS, and NGNMRS. We will discuss the current assumptions and application of those assumptions to the required reports and determine if modifications to any of the assumptions are necessary. As a reminder, this would not require a change to the actuarial assumptions used by Buck for the development and preparation of the annual actuarial reports. DRB would notify the audit committee of any changes determined from that meeting in order to prepare these reports.

ARMB Audit Committee Investment Compliance Update

March 16, 2022



Compliance Monitoring Systems

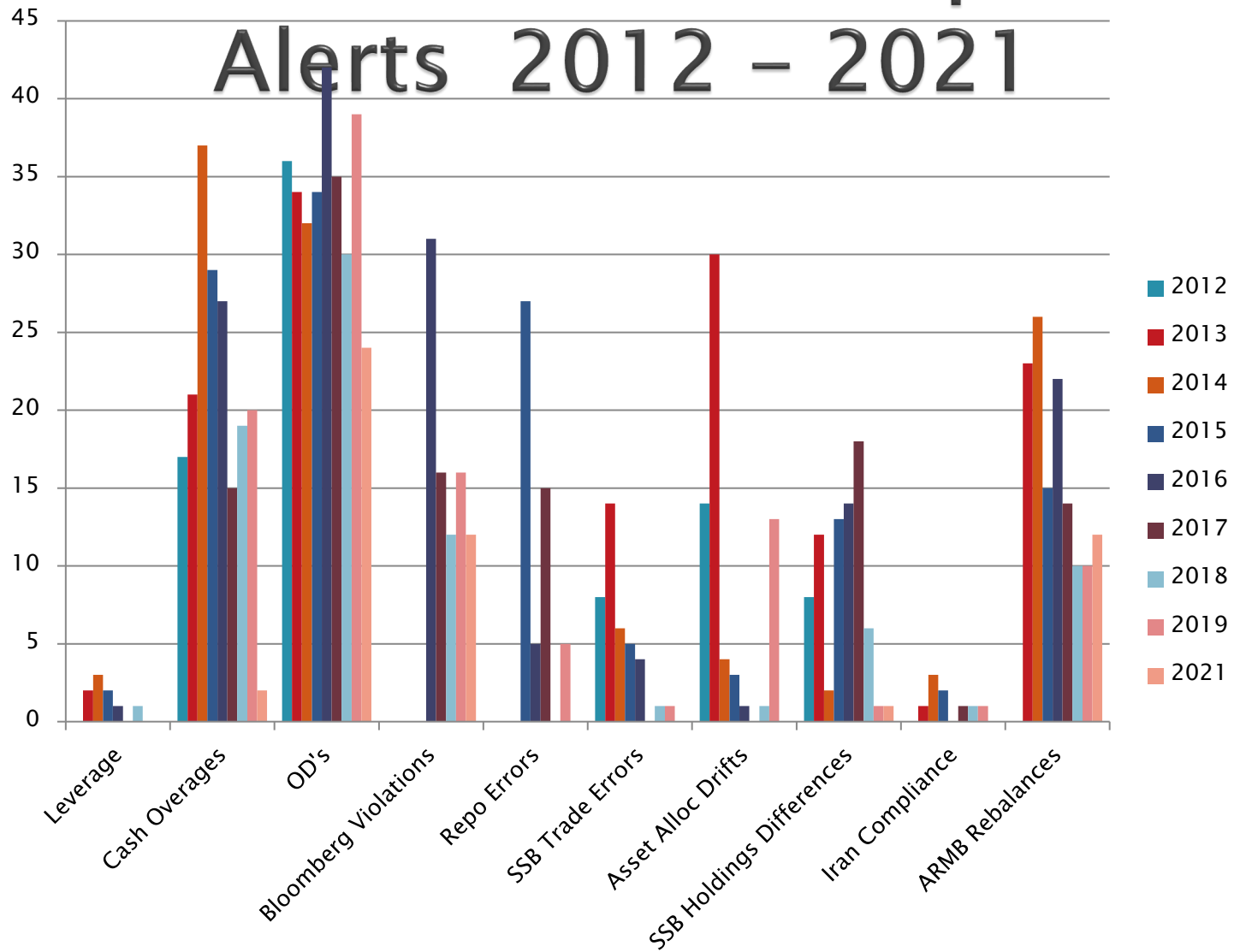
- Bloomberg Testing– 27 ARMB funds
- Internal Testing – 27 ARMB funds
- Fixed Income, Equity, REITs & Opportunistic
- DB, DC, SBS and Deferred Compensation Plans
- On average, over 12,000 securities tested per day
- Between two systems, over 100 compliance rules tested daily

Other Compliance Checks 2021

In addition to the automated testing done internally and in Bloomberg, staff checks other areas of compliance for ARMB funds using a variety of daily and monthly tests. When Compliance finds an error, the appropriate person within the department or State Street Bank is notified and the problem is addressed immediately. Here is a summary of those tests for calendar year 2021:

- ▶ Leverage Test (daily): There were no instances of leverage existing in ARMB funds in 2021.
- ▶ Cash Test (daily): There were 2 instances of funds exceeding their cash allocation in 2021.
- ▶ Overdraft Fees (daily): There were a total of 24 valid overdrafts for ARMB funds in 2021 resulting in fees of \$8,830.91.
- ▶ Bloomberg violations (daily): There were 12 confirmed Bloomberg violations in 2021. All violations were the result of residual positions held in MacKay, Shields high yield fixed income for the entire year.
- ▶ Repos (daily): Compliance reviewed 602 repo transactions involving AY70, the cash fund shared with the State of Alaska with no errors. We also reviewed 481 LMCS repos for other ARMB funds and discovered no errors.
- ▶ Internal Trades (daily): 47,558 trades involving internal funds were checked in 2021, with no errors.
- ▶ Plan Asset Allocations (daily): There were no instances of a plan drifting outside its asset allocation in 2021.
- ▶ Monthly Holdings: 1 current face difference was identified in 2021 as a result of our monthly holdings reconciliation. (cash flow timing differences in SSB)
- ▶ Iran Compliance: Quarterly, Compliance publishes a new list of companies doing material business with Iran and monthly searches all ARMB holdings based on the new list. There were no instances during 2021 of a manager purchasing a company on the Iran List.
- ▶ ARMB Rebalances (daily): There were 12 ARMB rebalance transactions and 34 other ARMB asset allocation transfer letters or internal transfers in 2021, with no errors.

ARMB Investment Compliance



2021 Commission Recapture Program

Year	Commissions Directed	Commissions Rebated
2008	\$975,886	\$615,781
2009	\$801,346	\$488,161
2010	\$842,907	\$446,753
2011	\$945,961	\$483,130
2012	\$624,810	\$330,049
2013	\$757,843	\$396,117
2014	\$649,726	\$330,670
2015	\$690,933	\$345,958
2016	\$736,342	\$387,389
2017	\$405,772	\$225,298
2018	\$130,535	\$53,592
2019	\$68,010	\$24,875
2020	\$38,053	\$14,536
2021	\$45,933	\$16,400
\$ Change from 2020	\$7,881	\$1,864
% Change from 2020	21%	13%

Commission Recapture is a mechanism that rebates a percentage of certain broker commissions back to the ARMB.

Rebated commissions were up about 21% from 2020. Currently the ARMB has only one manager actively involved in the Commission Recapture program so the amount of rebated commissions depends entirely on the volume of trading for that one manager. The rest of the broker fees in the ARMB are at execution only levels, leaving no room to recapture broker fees.

Proxy Voting

- ▶ **Voting and Other Action.** The managers shall vote any or all of the securities held by or for the account of the ARMB, unless written instructions to the contrary have been provided by ARMB. In voting securities of the ARMB, the managers shall act prudently in the interest and for the benefit of the ARMB and the beneficiaries of the funds administered by the ARMB. The manager is to furnish, on an annual basis, copies of the contractor's policy and voting records in regards to voting proxies.
- ▶ By September 1, all ARMB managers provided a statement indicating all proxies were voted in accordance with ARMB Policy. In 2021, we received and provided one Freedom of Information Act request for our proxy voting records for the previous fiscal year. The ARMB also received and provided two other Freedom of Information Act requests regarding our current holdings.

Alaska Retirement Management Board

Cost Allocation

Audit Committee

March 16, 2022

Cost Allocation Request

At the December audit committee meeting, former trustee Rob Johnson indicated he would forward, through the committee chair, questions relating to cost allocations. Eight questions were received, along with the comment that his questions seek to assess the allocation of costs between the state general and the pension funds, rather than how allocations of costs are made among the various pension funds. He also stated he was not implying, by asking these questions, to suggest any improprieties, it is just an exercise in due diligence. Questions and responses are below.

Summary Response:

Division of Retirement and Benefits (DRB) funding is provided primarily by the pension funds. The only state general funds that DRB receives are \$500k in general fund for the operational budget, approximately \$1.8 million for EPORS, and \$180k for the federally mandated PCORI payment. In general, costs are allocated to plans based on audited membership and plan funding numbers, unless specific to a fund or funds.

Treasury Division funding is based on its cost allocation plan which allocates costs based on total assets under management, the funds that staff perform work for and direct costs for specific funds. In the proposed FY2023 budget, there are funds managed by Treasury that have their own funding source (\$2.2 million), Others are funded by the general fund (\$2 million) and the remainder of costs are funded from the ARMB funds (\$7.1 million). An example of a cost that would be charged to the general fund only would be for work performed in association of protecting credit card information for the state.

Question 1:

Given the various DOR and DOA responsibilities that are not pension fund related, how are office space costs assessed? Assuming say \$100,000 in “rent” is charged for SOB office space to these agencies, how is any portion assigned to pension funds? Comparing only dollars seems inappropriate; time by employees in the office may be better. Or is it a mix? DOA employee time dealing with payroll and all the other non-pension issues probably use up a lot more space than pension administration does.

Response:

Office space costs are assessed on a square footage basis for state-owned buildings. For example, DRB occupies 14,826 sq ft in the Juneau State Office Building (SOB) which it charges to the pension funds based on the Division’s primary cost allocation plan based on 50% of allocation of

plan members and 50% of allocation based on plan assets. The same is true of the office space for DRB staff in the Anchorage Atwood building.

Treasury is charged for the 6,922 sq ft. it occupies in the SOB. Office space costs are allocated based on the Labor Distribution Profile (LDP) percentages created for each staff person, corresponding to the work they perform and charged to all ARMB and State funds. See the response to question 4 below for an explanation of how LDP's are created.

Question 2:

How is the cost of non-space infrastructure assessed? Computer time; subscriptions to Bloomberg, wiring for computers, etc.?

Response:

Non-space or personnel costs (discussed in question 4 below) include costs of services provided by centralized service divisions of the state, department support teams, and external vendors.

Centralized services include the Office of Information Technology (OIT) for computers and support, telecommunications, state accounting and reporting systems, and central mail among others. Costs of OIT for network infrastructure, cloud-based software and operating systems, etc. are assessed on a per usage basis. For example, the Microsoft Office365 subscription which provides access to email, word processing, etc. is a standard package and is charged on a per-user basis. Costs of state accounting systems are also based on usage (using the number of transactions entered into the accounting system). Central mail is billed based partially on a flat fee for services plus projected postage based on prior usage. These costs are further allocated across plans and funds using the cost allocation methodology of each division.

Department support includes procurement, human resources, and other administrative services. These costs are allocated to divisions based on a variety of methods including usage and position count. These costs are further allocated across plans and funds using the cost allocation methodology of each division.

Costs provided by external vendors for specified goods/services are allocated based on which plans or funds benefit from the goods/services. For example, in Treasury, Bloomberg services are allocated based on total assets under management.

Question 3:

What is the comparative breakdown on allocation of costs of the DOA computer system upgrade? Are the pensions advancing or prepaying amounts as distinct from DOA general fund sources?

Response:

The Division's system upgrade, the BEnefits And Retirement System (BEARS), is allocated to each trust based on the Division's primary cost allocation that prescribes a 50% allocation of based on plan membership and a 50% allocation based on plan assets.

Invoices are paid based on the proportion of costs allocated to each trust fund based on the Division's cost allocation plan used for the capital project. Each time an invoice for the BEARS project is approved for payment based on the vendor meeting milestones, payment is made as

noted above. There are no prepayments/advancing of funds from any of the project funding sources.

Question 4:

How are employee salary/overhead costs assigned? Dollar value, assigned time?

Response:

In DRB, personnel costs are distributed based upon percentage of time that each staff member spends working on an individual plan. For example, staff in the Retirement processing section spend most of their time working on PERS and TRS plans, with additional time spent on the remainder of the plans. Staff in the Health Operations section spend most of their time working with particular health funds or plans and are not cost allocated to funds unrelated to health benefits. Administrative staff costs are distributed across all funds, with relative percentages based upon plan membership and funding. The anticipated time and cost allocation of all staff to each of the funds is reviewed and assessed on a calendar basis. Each section head and appropriate manager receives a listing of prior year time/cost allocations for staff, reviews the allocations, and adjusts those allocations to reflect changing duties of staff, if necessary.

Treasury personnel costs are also allocated based on the percentage of time each staff member spends working on an individual fund or group of funds. Treasury staff members complete a salary survey annually, reviewed by section heads and Director, to identify the percentage of their time expected to be spent working on retirement Funds, state funds, or specific asset classes. The results of the survey are used to create Labor Distribution Profiles (LDPs) which are input into the state accounting system to create fiscal coding of payroll and benefits to the funds. LDPs are also used to code certain invoices that align with staff work.

Question 5:

Are there any exceptions to “normal” allocations at play? For example, is there an extra burden applied to pension-related costs?

Response:

There are no exceptions to the “normal” allocation process. As stated, DRB allocates most costs based on audited membership and plan funding numbers, and Treasury allocates most costs based on asset values in funds. Both divisions allocate costs based on work or services performed for specific plans or funds by staff and by vendors. For example, invoices from Segal are billed only to the health trusts.

Question 6:

Who makes the allocation decisions? Is there any third party/ “expert” advice sought?

Response:

Annually, in both divisions, a new plan is developed by each division’s Administrative Officer by determining allocation amounts using their respective cost allocation plan methodology. For DRB, audited membership and plan funding numbers are used and for Treasury, relative asset values of funds are used. As discussed above, personnel and other costs are allocated based on how their services benefit plans and funds. The creation of the plan is a collaborative process incorporating information from management and staff of each division. These allocations, along with actual historical costs become the basis for developing the amount of money encumbered in each budget allocation and is reviewed with each division’s management team, department budget team and OMB. At all stages, cost allocations and proposed budget are available for review by each divisions executive team as well as the department’s Division of Administrative Services (DAS). Maximus is the state’s cost allocation consultant and has been consulted from time to time regarding cost allocation issues, by both DOR and DOA.

Question 7:

In the last 10 years, have there been any audits or requested reviews of the allocation determinations?

Response:

Internal reviews are performed annually. There are periodic reviews in the year as discussed below.

Question 8:

How often are the allocation determinations reviewed?

Response:

Cost allocations in DRB and Treasury are performed and reviewed annually. All invoices are reviewed when received to determine how they should be allocated by the Administrative Officer and reviewed by Management. Actual and cost projections are reviewed monthly for consistency and reasonableness. If certain situations arise during the fiscal year, adjustments are made to more accurately allocate costs. Historically, there have been improvements to the cost allocation method as more or better data has become available.

Charter of the Audit Committee of the Board of Trustees of the Alaska Retirement Management Board

I. Audit Committee Purpose.

The Audit Committee provides independent oversight of the integrity of the Alaska Retirement Management Board's financial statements and reporting, systems of internal controls, and compliance with legal and regulatory requirements. It also serves as a conduit of communication among the independent auditors, asset, liability and investment management, the chief financial officers, and the Board of Trustees.

The Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the independent auditors, as well as ARMB management and staff, legal counsel, and asset managers. The Committee may retain, at the expense of the ARMB and consistent with applicable procurement requirements, special legal, accounting, or other consultants or experts it considers necessary in the performance of its duties.

II. Audit Committee Responsibilities and Duties.

A. The Committee shall carry out the following review responsibilities:

1. Review and assess the adequacy of this Charter at least annually and submit recommended changes to it to the Board of Trustees for approval.

2. Review the annual audited financial statements prior to filing or distribution of the final report. This review should include discussion with management and independent auditors of significant issues regarding accounting principles, practices, and judgments.

3. In consultation with management, the independent auditors, and the chief financial officers, consider the integrity of the financial reporting processes and controls; discuss significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures; and review significant findings prepared by the independent auditors and the chief financial officers together with management's responses.

4. Discuss any significant changes to applicable accounting principles and any items required to be communicated by the independent auditors.

5. At least annually, review with the ARMB's counsel any legal matters that could have a significant impact on the Fund's financial statements, the ARMB's compliance with applicable laws and regulations, and any inquiries received from regulators or governmental agencies.

6. Review financial and accounting personnel succession planning within the ARMB.

7. Periodically perform self-assessment of the Committee's performance.

B. The Committee is recognized as a direct avenue for the reporting of any material or significant finding by the Treasury Division Compliance Office. The Chair of the Committee shall be the primary contact with the external auditors between meetings of the Committee if communications between the external auditors and the Committee are deemed necessary or desirable.

C. The Committee shall have the following responsibilities with respect to the ARMB's independent auditors:

1. Review the independence and performance of the auditors and periodically recommend to the Board of Trustees the appointment of the independent auditors or approve any discharge of auditors when circumstances warrant.

2. Review the independent auditors' audit plan - discuss scope, staffing, locations, reliance upon management, and general audit approach.

3. Discuss with management and the independent auditors the accounting principles and underlying estimates used in the preparation of the Fund's financial statements.

4. Review the external auditor's management letter to the ARMB and discuss the contents with the auditors and monitor the follow-up on significant observations, findings and recommendations.

5. Discuss with the independent auditors the clarity of the financial disclosure practices used or proposed by the ARMB.

6. Meet with the auditors, in the absence of management, to review findings, recommendations or other pertinent subjects.

D. In addition to the foregoing, the Committee shall:

1. Perform such other activities consistent with this Charter, and governing law as the Committee considers necessary or appropriate or as the Board of Trustees may otherwise request.

2. Maintain minutes of Committee meetings and periodically report to the Board of Trustees on significant results of the Committee's activities.

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
AUDIT COMMITTEE CALENDAR

Remaining Schedule of 2022 Meetings

June 15, 2022 (Anchorage/Videoconference)

1. Review Auditor's audit plan of assets (Treasury) and pension systems and liabilities (Division of Retirement and Benefits). [Charter B 2](#)
2. Review with Staff (DOR and DRB) and Independent Auditors scope of audit, sensitive and risk areas, and compliance. [Charter B 2](#)
3. Report on Delinquent/ Late Filing Employers
4. Audit Committee opportunity to ask auditors to focus on areas of interest/review
5. Review Legal Issues and Regulations with Legal Counsel. [Charter A 5](#)
6. Review Organizational Charts, and Financial and accounting personnel succession. [Charter A 6](#)
7. Review Audit Committee Charter and Performance. [Charter A 1 and A 7](#)

September 14, 2022 (Anchorage/ Videoconference)

1. Meet with Independent Auditors to receive and review draft audit of pension system invested assets. [Charter A 2-3, B 3-4-5](#)
2. Committee only meeting with auditors without management [Charter B 6](#)
3. Report on Delinquent/ Late Filing Employers

October 11, 2022 (Videoconference)

1. DRB Financial Statements

November 30, 2022 (Anchorage/ Videoconference)

1. Meet with Independent Auditors to review final audit of pension systems [Charter A 2-3, B 3- 4-5](#))
2. Committee only meeting with Independent Auditors [Charter B 6](#)
3. Report on Delinquent/ Late Filing Employers

State of Alaska
ALASKA RETIREMENT MANAGEMENT
BOARD AUDIT COMMITTEE CALENDAR

Periodic and As-Needed Meeting Topics

1. Annual review with DRB on Independent Auditor procurement and contract (including review of independence and performance of auditors). [Charter B 1](#)
2. Updates by DRB on actuary procurement and second review/audits.
3. Custodian report and procedures review – augmented by staff reports. Biannual or as needed.
4. Regular reports by DRB on Employer Audit Program. Review list of completed audits, audit schedule, rotation, and significant findings/results. Identifying any recurring findings.
5. Regular reports on compliance:
 - A. “Back Office” compliance review programs.
 - B. Investment staff programs and procedures on real estate and alternative investment valuation monitoring and checks.
 - C. Annual Presentation
6. Audit Committee training on special topics

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
AUDIT COMMITTEE CALENDAR

Proposed Schedule of 2023 Meetings

March 15, 2023 (Juneau/Videoconference)

1. Meet with DRB and Treasury staff.
2. Report from DRB on Employer Audit Program. Review list of completed audits, audit schedule, rotation, and significant findings/results. Identify any recurring findings.
3. Report on Delinquent/ Late Filing Employers
4. Report from Treasury Compliance Officer.

June 14, 2023 (Anchorage/Videoconference)

1. Review Auditor's audit plan of assets (Treasury) and pension systems and liabilities (Division of Retirement and Benefits). [Charter B 2](#)
2. Review with Staff (DOR and DRB) and Independent Auditors scope of audit, sensitive and risk areas, and compliance. [Charter B 2](#)
3. Report on Delinquent/ Late Filing Employers
4. Audit Committee opportunity to ask auditors to focus on areas of interest/review
5. Review Legal Issues and Regulations with Legal Counsel. [Charter A 5](#)
6. Review Organizational Charts, and Financial and accounting personnel succession. [Charter A 6](#)
7. Review Audit Committee Charter and Performance. [Charter A 1 and A 7](#)

September 13, 2023 (Anchorage/ Videoconference)

1. Meet with Independent Auditors to receive and review draft audit of pension system invested assets. [Charter A 2-3, B 3-4-5](#)
2. Committee only meeting with auditors without management [Charter B 6](#)
3. Report on Delinquent/ Late Filing Employers

October 9, 2023 (Videoconference)

1. DRB Financial Statements

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
AUDIT COMMITTEE CALENDAR

Proposed Schedule of 2023 Meetings

December 6, 2023 (Anchorage/ Videoconference)

1. Meet with Independent Auditors to review final audit of pension systems [Charter A 2-3, B 3- 4-5](#))
2. Committee only meeting with Independent Auditors [Charter B 6](#)
3. Report on Delinquent/ Late Filing Employers

Periodic and As-Needed Meeting Topics

1. Annual review with DRB on Independent Auditor procurement and contract (including review of independence and performance of auditors). [Charter B 1](#)
2. Updates by DRB on actuary procurement and second review/audits.
3. Custodian report and procedures review – augmented by staff reports. Biannual or as needed.
4. Regular reports by DRB on Employer Audit Program. Review list of completed audits, audit schedule, rotation, and significant findings/results. Identifying any recurring findings.
5. Regular reports on compliance:
 - A. “Back Office” compliance review programs.
 - B. Investment staff programs and procedures on real estate and alternative investment valuation monitoring and checks.
 - C. Annual Presentation
6. Audit Committee training on special topics