

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
AUDIT COMMITTEE MEETING

Hammond Room – Centennial Hall
101 Egan Drive
Juneau, Alaska

March 1, 2017

ATTENDANCE

Committee Present: Rob Johnson, *chair*
Kristen Erchinger (on-line)
Gayle Harbo

Committee Absent: None

Department of Revenue Staff Present:

Pamela Leary (Treasury Division director)
Bob Mitchell (acting chief investment officer)
Judy Hall (board liaison)
James McKnight (senior compliance officer)

Department of Administration Staff Present:

Ajay Desai (director, Retirement & Benefits Division)
Kevin Worley (chief finance officer, Retirement & Benefits Division)
Melanie Helmick (senior audit and review analyst, Retirement & Benefits Division)

Others Present:

Norm West (trustee)
Gary Bader

CALL TO ORDER

CHAIR JOHNSON called the meeting to order at 11:05 a.m.

ROLL CALL

All three committee members were present.

PUBLIC MEETING NOTICE

MS. HALL confirmed that public meeting notice requirements had been met.

APPROVAL OF AGENDA

MS. HARBO moved to approve the agenda and MS. ERCHINGER seconded. The agenda was approved without objection.

APPROVAL OF MINUTES – December 7, 2016

MS. HARBO moved to approve the minutes of the December 7, 2016 meeting. MS. ERCHINGER seconded.

PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES

MS. HALL reported that there were no communications to the Audit Committee.

REPORTS

A. Update Employer Audit Program

Ajay Desai, Director of the Division of Retirement & Benefits, referred to the summary report dated February 14, 2017 (*included in the meeting packet and on file at the ARMB office*). MR. DESAI noted that as of February 6, 24 audits had been completed and the number of employees reviewed totaled 6,202; of that total, 2,260 PERS employees and 1,276 TRS employees were reviewed for retirement system compliance.

MR. DESAI also reported that as of January 31, 2017, the Audit Unit regulations were finalized that clarified the authority to audit system employers and participants. He quickly referenced additional information on audit totals, audits scheduled, and common issues found.

B. Updates: GASB 68

MR. WORLEY provided an update on GASB 68.

C. Compliance Report and Update

JAMES MCKNIGHT, senior compliance officer in the Treasury Division, gave an update on investment compliance in 2016 (*a copy of the slide presentation is on file at the ARMB office*). There are three different monitoring systems for investment compliance: Bloomberg, State Street Bank, and internal testing. They test 66 funds with Bloomberg, and currently 98 funds with internal testing. They test fixed income, equity, buy/write, TIPS, REITs, MLPs, and infrastructure investments. The funds are in the defined benefit plans, defined contribution plans, deferred compensation plans, and the Supplemental Benefit System. That encompasses 17,000 securities tested against 500 compliance rules per day, and much of the testing is automatic. MR. MCKNIGHT noted that State Street testing was discontinued in 2016 when State Street proposed higher fees during contract negotiations. He felt confident that the robust measures in place provided coverage reporting that over 17,000 securities are tested per day and between the two remaining systems, over 400 compliance rules are tested daily.

MR. MCKNIGHT went through a list of the other compliance checks that are done for ARMB funds on a monthly, weekly, or daily basis (*see slide 3 for the complete list*).

MR. MCKNIGHT next gave a report on the 2016 Commission Recapture Program. The commissions rebated were \$387,389, which was up about \$41,000 from the prior year. The reason appears to be a slightly higher volume of trades for the year.

Regarding proxy votes, every investment manager provided written assurance that they voted all proxies in accordance with ARMB policy.

MR. MCKNIGHT explained the investment compliance goals for 2016: to duplicate the rule checks performed in the past by State Street, Compliance is instituting an in-house automated process using programs such as Yieldbook and BarclaysLive. Staff is able to replicate the State Street compliance function while saving money. He also reported that in 2017, Compliance will institute several compliance checks involving the new securities lending program which will started up in late February.

CHAIR JOHNSON stated that the committee appreciates receiving the monthly report from Compliance, and the prompt response to questions raised.

D. Future Audit Committee Topics

No additional topics were requested.

E. Further Meeting Schedule

The Audit Committee schedule was included in the packet.

OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE

There were no other matters.

PUBLIC/COMMITTEE MEMBER COMMENTS

There were no public/member comments.

ADJOURNMENT

The meeting adjourned at 11:41 a.m., on a motion made by Ms. Erchinger and seconded by Ms. Harbo.