

**State of Alaska**  
**ALASKA RETIREMENT MANAGEMENT BOARD**  
**AUDIT COMMITTEE TELECONFERENCE MEETING**

**Treasury Conference Room, State Office Building**  
**333 Willoughby Avenue**  
**Juneau, Alaska**

**November 10, 2017**

**ATTENDANCE**

**Committee Present:** Rob Johnson, *chair*  
Kris Erchinger  
Gayle Harbo

**Committee Absent:** None

**Department of Revenue Staff Present:**  
Stephanie Alexander (ARMB liaison)

**Department of Administration Staff Present:**  
Kevin Worley (chief financial officer, Retirement & Benefits Division) (*via telephone*)

**Others Present:**  
Melissa Beedle (KPMG) (*via telephone*)  
Robert Lawson (KPMG) (*via telephone*)

**CALL TO ORDER**

CHAIR JOHNSON called the teleconference meeting to order at 4:00 p.m.

**ROLL CALL**

All three committee members were present to form a quorum.

**PUBLIC MEETING NOTICE**

MS. ALEXANDER confirmed that appropriate public meeting notice had been given.

**APPROVAL OF AGENDA**

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

**PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES**

There was no one who wished to address the committee.

## REPORTS

### A. Review of Draft June 30, 2017 Financial Statements:

KEVIN WORLEY, Chief Financial Officer for the Division of Retirement and Benefits in the Department of Administration, stated that the draft June 30, 2017 financial statements for the following retirement systems had been provided to the committee members a week ago.

1. Public Employees' Retirement System (PERS)
2. Teachers' Retirement System (TRS)
3. Judicial Retirement System (JRS)
4. Supplemental Benefits System (SBS)
5. Deferred Compensation Plan
6. UNAUDITED - National Guard and Naval Militia Retirement System (NGNMRS)

He said the financial statements were also going through the KPMG partner reviews and editorial reviews. He asked if the committee members had questions on the first five financial statements.

KPMG's Lead Audit Engagement Manager, MELISSA BEEDLE, stated that the current version of the financial statements has been reviewed by Daniel Mitchell, the Lead Engagement Managing Director. The additional partner reviews that Mr. Worley referred to are the concurring partner review and the national office review due to the implementation of GASB 74 this year.

MS. HARBO asked a question in Section 5 for the net OPEB liability in both the PERS and TRS financial statements about what those numbers represented.

MS. BEEDLE explained that page 31 in the PERS financials referred to the Alaska Retiree Health Care Trust, and page 34 referred to the Occupational Death & Disability Plan (ODD).

MS. ERCHINGER said she had the same confusion as Ms. Harbo. She asked if the titles could be capitalized to better separate the sections for the reader.

MS. BEEDLE said she would work with Mr. Worley on how he wanted to present that clearer.

CHAIR JOHNSON inquired about sections that were new due to FASB and GASB rules this year.

MR. WORLEY said this was the first year for implementation of GASB 74, which means added disclosure for the health plans for PERS, TRS and the Judicial System. Within PERS there are multiple other post-employment benefit plans – the Alaska Retiree Health Care Trust for the defined benefit plan, and the Occupational Death & Disability Plan and Retiree Medical Plan (both defined benefit plans) within the defined contribution plan.

CHAIR JOHNSON said he assumed that all the language related to GASB 74 had been vetted with KPMG and that they were comfortable with the additional disclosures in the financials.

MS. BEEDLE replied that part of the partner review process with the national office going on right now is validating that the financials contain the correct language for GASB 74. She added that because GASB 74 is essentially identical to GASB 67 that was implemented last year, KPMG is fairly confident that the language is correct.

MR. WORLEY noted that for the Judicial System financials, the only GASB 74 disclosure was for the Alaska Retiree Health Care Trust.

MR. WORLEY said that GASB 68 was implemented last year for PERS, TRS and JRS, which was allocation of the net pension liability to employers, derived from GASB 67. The same obligation to employers for other benefits will be the GASB 75 report, which will come out in June 2018, along with the GASB 68 report. The GASB 75 report will allocate the net OPEB (other post-employment benefits) liability to the participating employers. He noted that the Division of Retirement & Benefits (DRB) is well ahead of where they were last year at this time in preparation for putting out the schedules. The division has had good cooperation from Aetna (healthcare), Moda (dental), and CHCS (Medicare) in working through questions.

MR. WORLEY next addressed the NGNMRS financial statements, saying that he had included a write-up in the meeting packet to explain why the financials are still unaudited. The issue is the census information, which is very important because it ties in with the actuarial data. DRB has been finding the census information quite a bear because it is such a manual process. He reminded the committee that for the 2014 valuation report one of the military units had unexpectedly added roughly 240 members to the roll. Then members were dropping off at the last valuation report. DRB lacks confidence in the census information in hand at this point and could not issue the report because the GASB 67 requirements would not allow it. He discussed this with Commissioner Leslie Ridle, who had already been in contact with the Department of Military and Veterans Affairs (DMVA). The top three commanders at DMVA are on board for the State to start a full-on project in January to hammer out the census information and also work on a way to get it entered into the retirement system. Historically, this has been the most challenging retirement system in terms of census information and actuarial data, although it is the smallest.

CHAIR JOHNSON asked who would pay for the inconvenience and extra work that is necessary for the Division of Retirement & Benefits to do this census project.

MR. WORLEY replied that some would consider it work that the Division has to do already. Typically, many hours of staff time are charged to work on the NGNMRS. DRB will have to see how long the project will take, but these things tend to work out over a period of time. He and DRB director Ajay Desai will be talking with the IT staff on ways to automate the census process more, as opposed to the current process of using spreadsheets. He added that he would speak with Commissioner Ridle about the Chair's suggestion to extract some money from DMVA to do this, because it sounded like it was their paperwork mess.

CHAIR JOHNSON inquired about the consequence of the Division being unable to issue a report on the National Guard retirement system.

MR. WORLEY said DRB has been in discussion with the Division of Finance, which issues the State's CAFR (comprehensive annual financial report), to determine the materiality of the National Guard plan in relation to the State's CAFR. The Division of Finance has determined that the total amount of assets with the NGNMRS is not material. DRB also discussed this with the Division of Legislative Audit to see if they had concerns. Legislative Audit also realizes that NGNMRS is a non-material retirement plan overall, but they did request the unaudited financial numbers. He said that while he has one-hundred percent confidence in the numbers on the financial statement, he thought the GASB 67 requirement and such a big disclosure within the notes would keep the State from getting an audit opinion.

MS. ERCHINGER inquired about the "due to/from the General Fund," and whether that related to items like administrative fees that have not yet been paid by the plan, or a payment of allocated costs.

MR. WORLEY explained that at the June 30 fiscal year-end the State allows agencies a two-month period in which to occur their expenses and pay bills related to the prior fiscal year. During July and August, the General Fund could be paying an administrative expense or an investment expense. Like an account payable, it could be a due-to the General Fund, if it paid something for a retirement plan. In some situations, the General Fund receives money during July and August that would normally be recorded as a receivable, but if it is received by the General Fund it would be a due-from the General Fund. It is part of normal State business and will always exist because of the timing issue.

MS. ERCHINGER asked if the forfeiture due to employers was from defined contribution plan employees that separate prior to being vested in the retirement plan.

MR. WORLEY confirmed that she was correct. He added that a couple of years ago the systems added that forfeiture payable for those employees who were not fully vested when they left the job and then chose to have their account balance refunded to them.

MS. ERCHINGER asked if the forfeiture to employers was in statute or a regulation. MR. WORLEY said there is a statutory reference to forfeitures, which he would research further and report back at the next meeting. He said it is also tied to the Internal Revenue Service (IRS). Legal counsel Ice Miller had suggested working through the IRS and reporting the forfeitures as part of its voluntary compliance program. The Division is expecting a response from the IRS in the November/December timeframe. When they receive the IRS response, they will make it available to the employers.

MR. WORLEY acknowledged all the extra hours that everyone has been working related to implementing the new GASB 74 standard. The Division is on a timeline to get information to the Division of Finance for the State CAFR.

CHAIR JOHNSON offered kudos to the Division staff for their good work.

**B. Further Meeting Schedule**

The next regular meeting will be Wednesday, December 6, 2017, in Anchorage.

**OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE**

No other matters were brought forward.

**PUBLIC/COMMITTEE MEMBER COMMENTS**

There were no public comments.

**ADJOURNMENT**

The meeting adjourned without objection at 4:28 p.m., on a motion made by Ms. Harbo and seconded by Ms. Erchinger.

Note: An outside contractor prepared the summary minutes from staff's recording of the meeting. For in-depth discussion and presentation details, please refer to the recording and staff reports and written presentation materials on file at the ARMB office.

Confidential Office Services  
Karen Pearce Brown