

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

**Location:**

Robert B. Atwood Building  
Conference Center, 1<sup>st</sup> Floor  
550 West Seventh Avenue  
Anchorage, Alaska

**September 19, 2018**

**ATTENDANCE**

**Committee Present:** Robert Johnson, *chair*  
Kristin Erchinger  
Gayle Harbo  
Norm West

**Committee Absent:** None

**Department of Revenue Staff Present:**

Stephanie Alexander (board liaison)

**Department of Administration Staff Present:**

Ajay Desai (director, Division of Retirement & Benefits)

Christina Maiquis (acting CFO, Division of Retirement & Benefits) *via telephone*

Melanie Helmick (sp) *via telephone*

**Others Present:**

Melissa Beedle (KPMG) *via telephone*

Daniel Mitchell (KPMG)

Beth Stuart (KPMG) *via telephone*

**I. CALL TO ORDER**

CHAIR ROBERT JOHNSON called the meeting to order at 9:28 a.m.

**II. ROLL CALL**

All four committee members were present at roll call.

**III. PUBLIC MEETING NOTICE**

Board liaison STEPHANIE ALEXANDER confirmed public meeting notice had been met.

**IV. A. Approval of Agenda**

MR. WEST moved to approve the agenda. MS. HARBO seconded the motion.

CHAIR JOHNSON requested to add Item F, Charter Amendment Discussion. There was no objection to the amendment.

The approval of the amended agenda with the inclusion of Item F. passed without objection.

**B. Approval of Minutes - June 20, 2018**

MS. HARBO moved to approve the minutes of the June 20, 2018 meeting. MS. ERCHINGER seconded the motion. The minutes were approved as presented.

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

There was no one present at the meeting or listening by telephone who wished to speak to the committee. There were no written communications for the committee.

**VI. BUDGET CONSIDERATION**

**A. Presentation: FY18 ARMB Audited Financial Statements**

DANIEL MITCHELL introduced KPMG team members joining telephonically, MELISSA BEEDLE and BETH STUART. MR. MITCHELL informed he is leaving KPMG as of October 15, 2018, and moving to a different opportunity. MR. MITCHELL announced MS. STUART will be the lead audit managing partner on the State Retirement Systems. She is currently the lead partner of the Alaska Permanent Fund Corporation. MS. STUART has extensive experience in the fields of alternative investments and retirement plans.

CHAIR JOHNSON expressed regret for MR. MITCHELL's imminent departure. He noted MR. MITCHELL's presence and competence was appreciated. He wished MR. MITCHELL well in his future endeavors.

MR. MITCHELL began review of the presentation included in the packet. The audit is substantially complete. The majority of the field work is accomplished. The test work over the alternative investments is about 85% executed. Pricing test work on the marketable securities and investment income test work is finished. The items outstanding in manager review include testing the contributions and distributions as they flow into the report and finalizing the unadjusted audit differences from management relating to the lag reporting on certain investment funds. The items will move to partner review and finally to the specialist for sign-off.

MR. MITCHELL advised the issuance of an unmodified audit opinion is expected. The emphasis-of-matter paragraph included in the report draws the attention to note the presentation of the schedules is not intended to be a complete presentation of the financial status of the plans. Directions to locate the full set of financial statements are notated within the schedules. There are no identified material weaknesses or significant deficiencies as part of the completed test work. No changes in accounting policies have occurred. The significant accounting estimates are the same and include valuation of real estate investments and alternative investments. The financial statement disclosures have no significant changes. There are no other significant matters required to report.

MR. MITCHELL stated no elements of management bias were found regarding selection of accounting policy. There were no significant changes. The stated presumed risks are not intended to be negative commentary on the portfolio. The presumed risk for every report is the management of override of controls. The posted journal entries were reviewed and no reports are being made. The presumed risk of valuation of alternative investments is a specific risk of error to the audit and is generally included for clients who have significant alternative investment portfolios. MR. MITCHELL reviewed the specific procedures performed. There were no exceptions to the testing. Unadjusted audit differences on certain funds related to lag reporting is anticipated and will be released at a later date.

MR. MITCHELL informed the results of the audit misstatements will be provided closer to issuance, within the next few weeks. The information will become available during that time. The timing is not a reflection of management's ability to provide the information. Based upon historical performance and the number of funds that have lags, this should not be a material misstatement when reported. MR. MITCHELL explained the KPMG internal control related matters and KPMG responsibilities. There were no changes and no significant deficiencies identified related to the reporting of the schedules. There were no significant related party transactions and no actual or suspected fraud involving management or employees found. There were no matters to report regarding noncompliance with laws and regulations or subsequent events.

MR. MITCHELL stated the CAFRs, when available, will be reviewed for consistency with the issued reports. There were no other matters to report relating to any significant difficulties or disagreements with management. KPMG is not aware of management's consultation with any other accountants. The management representation letter will be included in the Audit Committee packet at a later date. Management has been very cooperative and timely during the audit process. The finalized financial statements and audit report is outstanding.

MR. MITCHELL directed the Committee's attention to the outline of the responsibilities of the parties in the audit; KPMG, management, and the Audit Committee. There were no changes to the responsibilities from last year.

**Committee Questions of Auditors (without staff present)**

MS. ERCHINGER commented it is prudent to engage the auditors without the presence of staff. She believes the process is within the Committee's due diligence responsibilities. CHAIR JOHNSON requested State of Alaska staff be dismissed from the room and telephonically.

MS. ERCHINGER inquired if the auditors have confidence the Department has the monetary resources and personnel resources to effectively complete their function. MR. MITCHELL believes there are sufficient overall resources as it relates to this particular report. He feels the personnel resources are more challenged on the Retirement and Benefits side, largely due to the immense workload entailed with transitioning CHRISTINA MAIQUIS as the new CFO. MR. MITCHELL suggested evaluating her assignments to determine if supplemental enhancements are warranted. He expressed the biggest risk is losing MS. MAIQUIS without a functional replacement plan. The workload demands have increased with earlier deadlines,

which will cause additional stress to the transition process. There is value added to the continuity MS. MAIQUIS provides during the change in management.

MS. ERCHINGER noted KEVIN WORLEY had been requesting additional assistance for a very long time and had not received the help. The challenge of support remains. She speculated this may have contributed to MR. WORLEY's departure. MS. ERCHINGER expressed understanding of the rigors of the constant changes to the standards, statements, and requirements of GASB. She recommended adding staff and capabilities to ensure the appropriate number of personnel for the workload is encouraged and maintained. MS. ERCHINGER is grateful for the experience, knowledge, and tenure of MS. MAIQUIS as it relates to the retirement plans. Without her particular skill set, the plan administration could experience a significant setback. MS. ERCHINGER noted the key position now has the added political responsibility.

MS. HARBO echoed the comments of MS. ERCHINGER and highlighted the increased changes in GASB requirements over the last five years.

MS. ERCHINGER inquired if there are additional questions MR. MITCHELL suggests the Committee should review. MR. MITCHELL believes all pertinent questions have been discussed and agrees to the best practice of the discourse with the auditors without staff present. The issues regarding staffing are important and the demands continue to increase. The deadlines this year have been moved earlier.

MR. WEST asked if there are any documented concerns that have not been addressed. MR. MITCHELL stated there are no documented concerns that have not been addressed. Under professional standards, he is required to disclose all documented concerns. He believes there is value in MS. STUART's transition because of her relationship and understanding with other clients, particularly concerning best practices. MS. STUART informed MS. BEEDLE has served on the account for several years and will continue as the lead audit manager. This will provide additional continuity in perspective and knowledge of ongoing operations.

CHAIR JOHNSON requested staff be invited back to the room and telephonically.

**B. Update: DRB Audits (Informational)**

MS. MAIQUIS provided the report on the DRB audits. The escalated audit schedule is on track with its timeline. KPMG was onsite again this year and their processes went well. The first draft should be completed by staff and presented to KPMG within the next couple of weeks. There were no questions.

**C. Internal Audit Report**

MS. MAIQUIS directed the Committee to the summary of the audit information within the packet. The 48 completed audits to-date have reviewed 9,991 employees. For FY17, there was a total of 29 audits. Three of those audits are in the process of being finished. For FY18, there were a total of 54 audits. Eight of those audits are being completed. The scheduled audits for FY19 will begin after the FY17 and FY18 audits are concluded.

CHAIR JOHNSON asked if there were any problems during the field audits with cooperation or themes of noncompliance of which the Committee should be made aware. MS. MAIQUIS requested MELANIE HELMICK share her perspective. MS. HELMICK informed the field audit participants have been forthcoming and provided no resistance.

MS. ERCHINGER inquired regarding the status of the number of smaller communities and villages that are unable to pay contributions into the system. MS. MAIQUIS advised the list of about 15 delinquent employers has remained historically stable with no new additions.

MS. HARBO commented she is pleased MS. HELMICK is currently onboard and inquired if she is available to remain past October 5<sup>th</sup>. MS. HELMICK informed she is working remotely and discussions are ongoing regarding the extension and continuation of her work. MS. HARBO wished the process success.

MS. ERCHINGER expressed appreciation to MS. HELMICK for her service and significant improvements to the audit function of employers. She noted the importance and value of key personnel at the State during these difficult transitional times of critical audit and requirement changes. MS. ERCHINGER voiced her support to retain MS. HELMICK and other great State of Alaska employees who offer benefit to the pension plan.

**D. Future Audit Committee Topics - None**

**E. Further Meeting Schedule**

2018-2019 Schedule Attached

October 24, 2018 - Audit Committee Meeting Date Set for DRB Review

**F. Charter Amendment Discussion**

CHAIR JOHNSON directed the Committee's attention to page two of the Charter within the packet and noted the addition of the sentence which provides that the Chair of the Committee will 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.

MR. WEST moved to recommend to the full Board to amend the Audit Committee Charter by adding the Chair of the Committee will 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. MS. HARBO seconded the motion. The motion was approved without objection.

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

MS. ERCHINGER highlighted a common theme of the meetings today has been concern regarding the potential loss of key staff members at both Department of Revenue (DOR) and Department of Administration (DOA). She believes the departure of MR. WORLEY was a loss of a great advocate of the plans. MS. ERCHINGER expressed appreciation to MS. MAIQUIS for fulfilling the position and emphasized her expertise and longevity with the plans. MS. ERCHINGER feels MS. MAIQUIS' history is as valuable and incalculable as was

MR. WORLEY's. MS. ERCHINGER suggested particular consideration is necessary for MS. MAIQUIS in her new position due to the significant changes in the profession over the last five years and the notable increases in requirements. These include the changes in the GASB standards for pension plans, the State allocation of pension and health among employers, and employer audits. MS. ERCHINGER commented on the immense pressure of the job to meet deadlines because of the downstream impacts to every public employer and political subdivision in the state. MS. ERCHINGER recommended the Committee and Board strongly endorse additional support and staffing to assist MS. MAIQUIS in being successful.

CHAIR JOHNSON commented his sense is the Committee and the Board would be supportive of DRB increasing the number of administrative positions necessary to be effective. AJAY DESAI, DRB, expressed appreciation for the support. He informed reorganization of DRB is underway and an additional accounting position has been submitted in the budget to conduct actuarial and legislative work that is currently the responsibility of the CFO. The interview screening process for the position has begun. MR. DESAI will report back to the Committee with updates.

MS. HARBO expressed concern it has been about four months since MR. WORLEY left employment and concern for the amount of work placed on MS. MAIQUIS. She hopes a new hire will occur soon to alleviate some of the pressure. MS. HARBO asked if salary was a factor in the hiring process. MR. DESAI indicated salary was one of the factors and another factor was lowering the CPA requirement to recommended and optional.

MS. ERCHINGER reminded the Committee of previous discussions pertaining to governmental salary structure constraints and the possibility of creating a separate salary structure for the retirement systems, based on operations of other states. The structure would better attract and retain positions according to the specific set of criteria. MS. ERCHINGER is unaware of the legislative steps that would need to occur to implement such a strategy. She feels that reducing the requirements because of low pay is a reflection of a broken system. MS. ERCHINGER recommended pursuing the option to develop a less restrictive structure to attract and retain the best possible candidates. She suggested this process be considered now before a much bigger problem occurs where employees leave in pursuit of adequate pay or a better work-life balance. MR. DESAI commented the trend in DRB has reversed and the turnover has increased in Alaska. He feels this is due to amount of work related to the amount of pay offered.

#### **VIII. PUBLIC / MEMBER COMMENTS - None**

#### **IX. ADJOURNMENT**

MS. HARBO moved to adjourn the meeting. MS. ERCHINGER seconded the motion. The motion passed without objection.

The meeting was adjourned at 10:22 a.m.

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