

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
AUDIT COMMITTEE MEETING

Location:

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

December 12, 2018

ATTENDANCE

Committee Present: Robert Johnson, *chair*
Kristin Erchinger
Gayle Harbo
Norm West (arrived late)

Committee Absent: None

Department of Revenue Staff Present:

Bob Mitchell (chief investment officer)
Pamela Leary (director, Treasury Division)
Stephanie Alexander (board liaison)

Department of Administration Staff Present:

Ajay Desai (director, Division of Retirement & Benefits)
Christina Maiquis (CFO, Division of Retirement & Benefits) *via telephone*

Others Present:

Stuart Goering (assistant attorney general, Department of Law)
Melissa Beedle (KPMG)
Robert Lawson (KPMG)

I. CALL TO ORDER

CHAIR ROBERT JOHNSON called the meeting to order at 9:04 a.m.

II. ROLL CALL

CHAIR JOHNSON, MS. ERCHINGER and MS. HARBO 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

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

B. Approval of Minutes - September 19, 2018

MS. HARBO moved to approve the minutes of the September 19, 2018 meeting. MS. ERCHINGER seconded the motion.

CHAIR JOHNSON requested clarification from MELISSA BEEDLE, KPMG, regarding the reference on page three; “MR. MITCHELL informed the results of the audit misstatements will be provided closer to issuance, within the next few weeks.” CHAIR JOHNSON believes the reference to audit misstatements was to a deficiency respecting the delivery of data. MS. BEEDLE believes the reference is to the unadjusted audit difference related to the lag reporting on the Treasury.

MS. ERCHINGER moved to amend the minutes of the September 19, 2018 on page 3 to delete the words, “audit misstatements,” and replace with “unadjusted audit differences”. MS. HARBO seconded the motion. The motion to amend passed without objection.

The motion to approve the minutes as amended passed without objection.

V. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS, AND APPEARANCES - None

VI. A. Review of Financial Statements / Letter to Audit Committee

MS. BEEDLE introduced KPMG team member ROBERT LAWSON. She reviewed the audit results provided to members. MS. BEEDLE advised all of the audited financials have been issued an unmodified opinion as of November 21st. The required MD&A supplemental information was reviewed for consistency. MS. BEEDLE informed there were no changes to the audit policies this year. She noted the policies seem appropriate and no management bias was identified. MS. BEEDLE explained the net pension liability and net OPEB liabilities are considered to be significant accounting estimates for the retirement systems. The assumptions were found to be reasonable and primarily inline with assumptions across the country. The discount rate of 8% is supported by the investment allocation and is higher than other discount rates across the country.

MS. BEEDLE advised no material weaknesses or significant deficiencies were identified. She reviewed the required communications and there were no matters to report. The management representation letters have been attached to the letter to the Board within the packet. MS. BEEDLE informed KPMG will review the draft CAFRs, when available. She described the comparison page of audit fees between this year and last year.

MS. ERCHINGER inquired if this year’s audit was the first occasion KPMG took into account the allocation of the unfunded liabilities with respect to healthcare. MS. BEEDLE informed the reports were initially performed in 2017. The work remains in the contract for 2018, with approximately \$72,000 related to issuance of the eight reports. MS. BEEDLE

explained the Treasury Division fee was lower this year because most of the work was completed offsite and no travel expenses were charged.

MS. BEEDLE continued the presentation and highlighted the responsibilities of management, the Audit Committee, and KPMG. CHAIR JOHNSON requested MS. BEEDLE provide feedback to the Committee regarding suggestions to enhance the effectiveness of its oversight capability. MS. BEEDLE believes the current internal controls and oversight are sufficient. The one internal control deficiency found related to the PERS', TRS', and JRS' IBNR analysis, in that there was no process in place to investigate variances between the State developed IBNR and the actuary developed IBNR. This was a process level deficiency and there was no audit difference. MS. BEEDLE requested CHRISTINA MAIQUIS, CFO, Division of Retirement & Benefits (DRB), to provide an update on the creation of new policies to review the difference. MS. MAIQUIS informed the Division has begun new procedures to examine threshold amounts for making adjustments based on the State's calculation versus the actuary's calculation. MS. BEEDLE expressed appreciation to Treasury staff and DRB staff for their assistance in completing the financial statements three weeks ahead of last year.

CHAIR JOHNSON asked MS. MAIQUIS for additional comments. MS. MAIQUIS provided an update on the National Guard Plan issues reviewed previously. She advised meetings will be scheduled with the Division of Veterans and Military Affairs to discuss ways to ensure the data from the plan is auditable in the future.

MS. ERCHINGER understands the purpose of the audit is not to evaluate the effectiveness of internal controls. However, the review of internal controls is a significant part of the audit. MS. ERCHINGER expressed appreciation to CHAIR JOHNSON for addressing the subject because of the Committee's responsibility to ensure the internal controls are robust and appropriate. She indicated due diligence could be performed by asking staff for reports on particular areas of concern.

MR. WEST commented the auditors' review of the internal controls is necessary to understand the validity of the financial statement information being produced. There is a broader aspect of additional internal controls the auditors do not review.

MS. ERCHINGER expressed appreciation to MS. MAIQUIS and AJAY DESAI, Director, DRB for their efforts in surpassing last year's financial statement timeline, particularly during the recent turnover activity in the Department. MS. ERCHINGER reiterated Committee support for additional staff positions at the higher level of the accounting function to continue to meet the deadlines.

CHAIR JOHNSON commented the Alaska Permanent Fund has not been subjected to the same kinds of transitional changes incurred by others in the State. He understands the distinction and recognition the Permanent Fund holds. CHAIR JOHNSON believes there is a parallel between the way the Permanent Fund operates and the way the ARMB needs to operate, in terms of funding. The funding for financial officers in DRB and Department of Revenue primarily comes from the Trust funds. He wished the Commissioners were present

today to hear the comments and respond regarding the ARMB and the Committee's recommendations of enhanced funding from the Trust funds for the critical positions in order to satisfy the fiduciary responsibilities.

B. Information Update: Employer Audit Report

MS. MAIQUIS provided the summary report on the employer audits. There are 42 audits currently scheduled for FY19. One has been completed and six are underway. The number of audits has been reduced in half from the number in previous years because of budget cuts. The hope is the number of audits will increase to the full amount in FY20.

MS. HARBO requested additional information on the wages collected from employees and not remitted to PERS. MS. MAIQUIS stated she is only aware of the reported issues with Nenana. MS. MAIQUIS advised approval was given for MELANIE HELNICK (sp) to work remotely. MS. MAIQUIS will request MS. HELNICK to include an expanded description in the next summary report on the scope of these potential issues.

C. Committee Meeting with Independent Auditors - None

D. Future Audit Committee Topics

MR. WEST inquired if the Committee wishes to further investigate the evaluation of internal controls. CHAIR JOHNSON requested comments from MS. BEEDLE, MS. MAIQUIS and MR. DESAI regarding additional actions the Committee can undertake focused on internal controls. MS. BEEDLE reiterated the KPMG audit looked at internal controls, but did not test or opine on them. There were no significant issues identified. She noted additional actions could include conducting an internal audit or an external audit. MS. BEEDLE does not recommend an external audit and does not believe one is warranted.

MR. DESAI believes the current internal control process is solid and well-documented. He looks forward to implementing the new system and carrying over the policies, processes, and procedures systematically in order to maintain the internal knowledge. The new system will also connect the process to the statute or plan documents.

MS. MAIQUIS commented the internal audit unit currently includes verification of the contribution amount the employer submits and this provides additional internal control.

CHAIR JOHNSON requested observations from Revenue regarding internal control review. PAMELA LEARY, Director, Treasury Division, explained the ARM Board Treasury assets have multi-level layers of internal control. The Treasury has documented processes for every accounting rule and the assets are custodied at State Street, which has its own internal controls. A report of the review of State Street's internal controls is provided each year to the State and to KPMG.

MR. WEST described his impression from the comments is staff feels confident about the documentation and procedures currently in place. There are some third-party reviews of internal controls, but nothing specific. He explained an internal auditor would perform routine testing to ensure processes, procedures and rules were being followed. People make

mistakes and the consistent testing provides feedback on how to improve the procedures and processes. MR. WEST believes regular reviews of some of the large dollar transactions are appropriate from a recording perspective and a proprietary standpoint.

CHAIR JOHNSON requested Revenue and Administration prepare a cost-benefit analysis on additional review of internal controls and present the report at the next meeting.

MS. ERCHINGER noted the audit discussion circles back to the comments regarding the costs associated with the Retirement System are borne by the Retirement System. She encouraged dialog continue concerning the distinction between the Retirement Trust funds and the State's general funds. State budget cuts have reduced travel for the Administration's internal auditors who need to be in the field ensuring employers are properly contributing to the System. MS. ERCHINGER recognizes the significant turnover occurring at all levels of the State and local governments. She feels this will increase the amount of mistakes because there are fewer tenured employees who know the regulations and can effectively implement the regulations and procedures. MS. ERCHINGER believes the audit function is becoming more important and seeing it reduced is the opposite direction the Committee is heading. The Committee encourages hiring additional auditors to ensure the contributions are being received by the System.

E. Further Meeting Schedule

2018-2019 Schedule Attached

The next meeting is scheduled for April 3, 2019, in Juneau.

VII. OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE

None

VIII. PUBLIC / MEMBER COMMENTS

MS. HARBO expressed appreciation to Revenue and Administration staff for their diligent work to complete the audit earlier than scheduled. MS. HARBO thanked MS. MAIQUIS for taking over as CFO and doing a marvelous job. She noted the new GASB requirements add an additional layer of complexity. MS. HARBO discussed the importance of stability in the workforce and maintaining continuity. She does not want to see turnover because employees are overworked. MS. HARBO commented on the cost of training when turnover occurs. She supports the appropriate number of staff be hired to effectively complete the audits in a timely manner, particularly Anchorage.

CHAIR JOHNSON expressed appreciation to the presenters today.

IX. ADJOURNMENT

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

The meeting was adjourned at 9:44 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.