

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
AUDIT COMMITTEE MEETING

Location:

Alaska State Museum
Lecture Hall
395 Whittier Street
Juneau, Alaska

September 18, 2019

ATTENDANCE

Committee Present: Robert Johnson, *chair*
Lorne Bretz
Gayle Harbo
Norman West

Committee Absent: None

Other Trustees Present: Alan Hippler (arrived 9:31am)
Commissioner Kelly Tshibaka

Department of Revenue Staff Present:

Bob Mitchell (chief investment officer)
Pamela Leary (director, Treasury Division)
Scott Jones (comptroller)
Kayla Wisner (deputy comptroller)
Stephanie Alexander (board liaison)

Department of Administration Staff Present:

Kevin Worley (CFO, Division of Retirement & Benefits (DRB))
Melanie Helmick (DRB, DOA)

Others Present:

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

I. CALL TO ORDER

CHAIR ROBERT JOHNSON called the meeting to order at 9:01 a.m.

II. ROLL CALL

CHAIR JOHNSON, MR. BRETZ, MS. HARBO and MR. WEST 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. The agenda was approved without objection.

B. Approval of Minutes - June 19, 2019

MS. HARBO moved to approve the minutes of the June 19, 2019. MR. WEST seconded the motion. The minutes were approved without objection.

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

VI. A. Presentation: FY19 ARMB Audited Financial Statements

CHAIR JOHNSON introduced BETH STUART and MELISSA BEEDLE, KPMG, to present the FY19 ARMB Audited Financial Statements provided to members. MS. STUART summarized the scope of the audit is performing under the generally accepted U.S. auditing standards. There have been no changes to the audit plan since it was presented to the full Board in June. KPMG expects to issue an unmodified clean opinion on the schedules. MS. STUART informed the audit is progressing well and reviewed the remaining outstanding issues. The representation letter will be received the day prior to issuance. Pending contribution testing and distribution testing by the DRB is expected to be completed soon.

MS. STUART advised no changes have occurred in the significant accounting policies this year, and no new accounting pronouncements were required to be applied. No opinion is provided on information that is outside of the audited financial statements. There are no matters to report that were identified during the audit. The one item to be called to the ARM Board's attention is the schedules only represent the financial view of the invested assets and do not represent the financial statements of all the plans. MS. STUART noted a significant risk area in every audit is management override of controls. Professional standards require KPMG to design the audit procedures to identify this risk factor. No material weaknesses or significant deficiencies were identified.

The audit focuses on the main risk areas related to the valuation of alternative investments. MS. STUART discussed the audit procedures regarding the alternative investments. The policy of the Division is to record the fund information on a lag basis. This is consistent with companies and funds that are similar to the invested assets. MS. STUART invited MS. BEEDLE to provide additional information regarding the impact of the lag reporting on the financial statements each year for the last five years.

MS. BEEDLE noted the data provided is monitored and updated by management. The primary item reviewed, in terms of its materiality, is the net effect on the schedule of

investment income. KPMG does not believe the net effect in 2019 is material to the users and will not require the Treasury post the adjustment. A material effect would generally consist of approximately 2% of total assets. The data is also monitored per investment. Private equity has the most significant lag effect based on the timing of the March 31 reported values and the June 30 actual values.

MR. WEST inquired if there is a better alternative to the lag reporting. MS. STUART identified one less used alternative KPMG has seen in practice is an estimation process that utilizes index-like rates of return for the June 30 value. MS. STUART advised the ARMB lag reporting process is consistent with peers.

CHAIR JOHNSON asked STUART GOERING, Department Law, Assistant Attorney General, if an executive session was necessary or if it was appropriate to exclude staff for the purposes of conforming with best practices and discussions with auditors. MR. GOERING indicated the Open Meetings Act allows executive sessions for the purposes of discussing matters which could have an adverse effect on the finances of the agency. The Committee members make the determination regarding discussions that could have potential adverse impact. MR. GOERING has the impression the Committee desires a candid discussion on the record without staff present. CHAIR JOHNSON informed the Committee wishes to have a public conversation with the auditors without staff present, per the standards of best practices. Staff members exited the meeting room. CHAIR JOHNSON requested MR. GOERING remain present.

MS. STUART reiterated it is best practice for the Committee to conduct candid conversation with the actuary without staff present. She discussed the list of inquiries on page 11 of the report that could be helpful during completion of KPMG's audit procedures. Committee members had no specific focus on any of the inquiries provided. MS. STUART believes there is continued opportunity for staff cross-training and ensuring sufficient staff within the Division.

MS. HARBO commented on her support and confidence in the role CHRISTINA MAIQUIS has maintained in periods of high level transition. MS. STUART agreed, and noted the increase of risk involved in being heavily dependent on one or two individuals. MS. HARBO expressed support in KATHY LEA's performance. A comment was made the intent is to overlap MS. LEA's position in December to provide training of her position for five months before she retires.

MR. WEST inquired if staff has been responsive to the actuary's request for discussion on important issues. MS. BEEDLE responded staff has been very helpful and completely willing to cooperate with all aspects of the process.

MS. HARBO asked for additional information regarding the KPMG mandatory rotation policy. MS. STUART advised the KPMG mandatory rotation policy limits a partner from serving more than 10 years on an account. KPMG believes this is a best practice to ensure quality of service.

Staff returned to the meeting.

B. Update: DRB Audits (Informational)

CHAIR JOHNSON introduced KEVIN WORLEY, CFO, DRB, who provided an overview of the DRB audits. The Division of Finance established an October 15th deadline to receive final audited reports for the retirement plans. The reports are well on schedule to meet the deadline. The GASB allocation schedules for the employers are expected to be issued in December. MR. WORLEY discussed review of an alternate date for the October 10th Committee meeting due to lack of a quorum. CHAIR JOHNSON reviewed members' availability. The teleconference Committee meeting was scheduled for October 14th. Pertinent data will be provided to members by October 8th to review.

C. Internal Audit Report

MR. WORLEY introduced MELANIE HELMICK, lead internal auditor for DRB and State Social Security administrator. He requested MS. HELMICK provide the updates for the FY19 and FY20 audits. MS. HELMICK informed 10 desk audits have been completed in FY19. Two audits have been moved to FY20 because of their size. One audit has requested an in-person review. The remaining audits are expected to be completed by the end of the calendar year.

MS. HELMICK reviewed the common employer audit issues found in FY19. Two errors regarding bona fide separation violations were identified. There are two employers with contributions withheld from wages and not submitted. The issues are being addressed.

MS. HARBO asked if the employers withholding contributions are additionally not paying the defined contribution amount. MS. HELMICK agreed. MS. HARBO asked if the employees are aware their contributions are not being made. MS. HELMICK believes employees are aware, but does not have direct knowledge. MR. WORLEY believes the members are aware of the nontransmittal of contribution in the smaller communities. The Division has final procedures in place regarding voluntary and involuntary terminations of employers from PERS. One of the reasons for involuntary termination is nontransmittal of funds.

MR. BRETZ commented the delay in receipt of funds is concerning. He asked for the average delay in time the funds are received. MR. WORLEY explained one of the statutes allows the Division to bill the employer for late contributions at 1.5 times the actuarial rate of return. Additionally, the employer should follow the make-whole provision in the statute.

CHAIR JOHNSON asked if, absent potential fraud, the contributions are not being made by the employer due to lack of funds. MS. HELMICK agreed. CHAIR JOHNSON inquired if it is possible other government units are withholding funds from the employers causing a funding deficit. MS. HELMICK noted she could not speculate, but believes the scenario is possible. MR. WORLEY discussed some communities do not submit the required financial statements to release certain funding. CHAIR JOHNSON asked if it is possible to attach the

funds the community is supposed to be receiving from the other areas of the State to make up the difference. MR. WORLEY advised that ability is available and has been utilized once. He commented the option is frowned upon and receives political push-back. No garnishment can occur with earmarked funds.

MS. HELMICK discussed the successful National Conference of State Social Security Administrators she recently attended. Small issues have been identified with noncompliance of Medicare and Social Security withholdings. MS. HELMICK works with the local governments to provide better understanding of the process and to bring them into compliance.

MS. HELMICK informed the FY20 audit unit travel budget and auditee list is being developed and submitted through the approval process. Desk audits will comprise the majority of the audits.

MR. WEST asked if the same employers and communities who are delinquent on State withholding are also delinquent on Social Security withholding. MS. HELMICK agreed. MR. WEST inquired if the IRS has priority to take payments before the State gets its payment. MS. HELMICK agreed it is possible, but believes it would be unlikely.

MR. BRETZ asked for the approximate total amount of funds the listed communities are behind in payments. MS. HELMICK advised the audits do not quantify the amount delinquent. Tanana is a year-and-a-half behind the contribution schedule. Nenana is a couple of years behind the contribution schedule. MR. WORLEY noted the specific amount due the State cannot be determined because the State does not have the payroll information available. The estimation could be quantified after payrolls were submitted.

MS. HARBO inquired regarding the accounting of the HRA funds. MR. WORLEY explained there is an individual account for each member HRA. There are earning provisions within statute and regulations. Interest is required to be posted to member accounts by the January 15th, following the fiscal year. The programming, testing and verification of the processes are being finalized. The HRA funds stay in the plan if the DC employee leaves the system.

MR. WORLEY conveyed no trust funds are used to pay for MS. HELMICK'S travels for her Social Security work.

D. Future Audit Committee Topics - None

F. Further Meeting Schedule

CHAIR JOHNSON informed the Committee meeting previously scheduled for October 10th has been moved to October 14th.

VII. OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE

None

VIII. PUBLIC / MEMBER COMMENTS - None

IX. ADJOURNMENT

MS. HARBO moved to adjourn the meeting. MR. WEST seconded the motion.

The motion passed without objection.

The meeting was adjourned at 9:54 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.