

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

**Videoconference**

**MINUTES OF**  
**June 17, 2020**

**Wednesday, June 17, 2020**

**ATTENDANCE**

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

**Committee Absent:** None

**Other Trustees Present:** None

**IAC Members Present:** Dr. William Jennings

**Department of Revenue Staff Present:**

Bob Mitchell, Chief Investment Officer  
Kayla Wisner, State Comptroller  
Pamela Leary, Director, Treasury Division  
Scott Jones, Chief Investment Officer  
Stephanie Alexander, Board Liaison  
Zachary Hanna, Deputy Chief Investment Officer  
Mike Barnhill, Deputy Commissioner  
Mark Moon  
Ryan Kauzlarich  
Grant Ficek

**Department of Administration Staff Present:**

Kevin Worley, CFO, Division of Retirement and Benefits  
Ajay Desai, Director, Division of Retirement and Benefits  
James Puckett, Deputy Director, Division of Retirement and Benefits  
Melanie Helmick, State Social Security Administrator, Division of Retirement and Benefits

**Others Present:**

Stuart Goering, Assistant Attorney General, Department of Law

Kevin Dilg, Assistant Attorney General, Department of Law  
Paul Erlendson, Callan LLC  
Melissa Beedle, KPMG  
Elizabeth Stuart, KPMG

## **I. CALL TO ORDER**

CHAIR ROBERT JOHNSON called the meeting of the ARM Board Audit Committee to order at 8:00 a.m.

## **II. ROLL CALL**

CHAIR JOHNSON, MR. BRETZ, MS. HARBO, and MR. WEST were present at roll call.

## **III. PUBLIC MEETING NOTICE**

STEPHANIE ALEXANDER confirmed that public meeting notice requirements had been met.

## **IV. A. APPROVAL OF AGENDA**

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

## **B. APPROVAL OF MINUTES: April 30, 2020**

MS. HARBO moved to approve the minutes of the April 30, 2020 meeting. MR. WEST seconded the motion.

CHAIR JOHNSON pointed out that on page 2, it sounds like the presentation was made to all state officials, but in fact, the ALASBO Power Lunch presentation was only to school business officials.

With that change, the minutes were approved.

## **V. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS & APPEARANCES – None.**

## **VI. A. Review Independent Auditors' Audit Plan**

KEVIN WORLEY introduced BETH STUART, managing partner of KPMG, and MELISSA BEEDLE, the audit manager for both the Treasury division audit of the ARM Board investments and the retirement system audits for PERS, TRS, et cetera.

MS. BEEDLE briefly showed KPMG's client service team and reviewed their audit approach. She pointed out that they do consider internal controls as part of the audit, but they do not issue an opinion on the effectiveness of the internal controls. However, if they find any significant deficiencies or material weaknesses, they will bring those issues to the Board's attention.

MS. BEEDLE said the audit did identify a couple of significant risks. Management override of controls is inherent in every audit, she said, and the other significant risk they identified relates to the valuation of alternative investments. She said the process of doing those valuations involves estimates, and with Treasury reporting those on a lagged basis, that is more of a risk in this year's

environment.

MS. BEEDLE said another significant audit matter relates to the valuation of the net pension and net other post-employment benefit liabilities, which are allocated to the various employers, so KPMG involves their specialists in taking a close look at that. The final matter is the valuation of the incurred but not reported claims for the health plans.

MS. BEEDLE reviewed KPMG's materiality, including involvement of others, their plan deliverables, and new accounting pronouncements. She said there are no new accounting pronouncements to be implemented this year, and required inquiries are usually discussed in Executive Session, or she or MS. STUART could discuss them individually with Trustees.

MS. BEEDLE said that management override of controls is considered a significant risk because management is in a position to override internal controls and post journal entries that go outside the normal review process. She said they have not historically had any issues with this with the Treasury or retirement systems, but it is something they are hyperaware of.

CHAIR JOHNSON asked if the takeaway is that they spotted some particular issues, or if they are just highlighting the fact that they are being extra diligent; MS. BEEDLE replied that they are being extra diligent, and they have not in the past had significant issues with these areas, but they do spend quite a bit of time on them in their audits.

MS. BEEDLE said that there is usually an audit adjustment related to the value of the alternative investments between the time between when the Treasury has reported the value and June 30 to determine if that would have a material impact on the users of the financial statements. She said that this year, that adjustment would be much greater, so they'll work with the Treasury department on plans to bridge that gap between what they record and the June 30 true evaluation.

MS. BEEDLE then discussed materiality, saying that it is a judgmental number which they don't share with management or the Audit Committee, and during the review process to determine the exact number, they consider what the users of the financials will consider a material error. When they say that the audit and the financial statements are prepared without a material error, these judgments go into that determination.

MS. BEEDLE said that KPMG involves others, such as a specialist whose work is valuation of private market investments, actuaries with different specialties, and a GASB specialist. Then she showed the timeline of her firm's work broken down by quarter, saying that they are working on the audit for about three quarters of the year, and are always available to KEVIN WORLEY and KAYLA WISNER. MS. BEEDLE said the anticipated issuance is mid-October for the retirement systems and September for the Treasury report.

MR. WEST asked, regarding the time lag in the private investment valuation, since the report isn't issued until October, if they normally do a June year-end valuation, just later; MS. BEEDLE answered no, the Treasury ARM Board invested assets report is usually issued around mid-September or early October, and those values are as of March 31<sup>st</sup> or May 30<sup>th</sup>, the latest information they have before

that cutoff date. She said KPMG then assesses that lagged period and presents an adjusted audit difference, and they tell the Board what the difference would be, but it is not reported in the financial statements.

MR. WEST asked if they estimate what they think the difference would be because they don't actually have a valuation as of that date; MS. BEEDLE replied that by that time, a lot of those June 30th values are known, so there is only a small part of that unadjusted audit difference that is an actual estimate.

MR. WEST asked, if they have a known valuation before they put the financials out, why they don't use that; MS. WISNER explained that when they close their books on June 30<sup>th</sup>, they use the valuations from March and May, but the work after June 30<sup>th</sup> going into the UAD includes statements for June 30<sup>th</sup> and August. MR. WEST pressed on why they have this unrecorded lag when they know what it is; PAM LEARY said the financial statements will generally always carry that quarter lag, which makes them comparable, allowing for consistency of reporting throughout the year, and has always been their practice for alternative investments. MR. WEST asked again, interim financials are often prepared on a different basis than year-end or period-end financials for audited financials, so why not do that? MS. LEARY replied that it is not only good practice, but having their annual financial statements be able to be completed relatively quickly is part of that process so they can get the information out to the ARM Board members and have consistency. They could report on that additional information afterwards, which is something that the Operations Committee has been discussing. She said they could always provide that information on the lag amount as follow-up, if requested.

MR. WEST said it seemed like a weakness in the financial reporting to consistently do that, and said it seems like they would adjust the reporting to pick up that lag, at least in terms of comparables where they are placing annually audited financials next to annually audited financials. He asked if there is a state requirement that they have to audit the financials as of a certain date that are presented to the public, rather than audit the financials as of that date with all the information that is known before the auditor puts their opinion date on it. MS. WISNER replied that the Department of Administration Division of Finance needs the financials to complete their CAFR, and they want them by October 1<sup>st</sup> this year. Adding the information that comes later in the year and having KPMG go through it would push that timeline out.

MS. BEEDLE showed some information about KPMG's independence quality controls and the process they go through to be independent auditors for the State of Alaska, then a breakout of the responsibilities of management and the Audit Committee, which is presented every year and hasn't changed.

MR. WORLEY followed up by stating that the deadline for the state CAFR is December 15<sup>th</sup> so the legislative audit can be completed in time to be available to legislators, so the audited financial statements for the ARM Board's investments and all funds under the oversight of the Commissioner of Revenue have to be provided by October 15<sup>th</sup>. CHAIR JOHNSON asked if the chaos experienced in March would have been accounted for in the product that is ultimately delivered; BETH STUART answered that by the time the report is issued, they will be comfortable that they understand what the value was as of June 30<sup>th</sup> and will be able to determine whether the difference between that and what

is recorded is material or not. She said they would report that amount to the committee and to the Board. MS. STUART added that if it were determined that the amount was significant or material, they would ask that management record that entry, which would be unlike other years.

CHAIR JOHNSON commented that he suspects that the chaos they experienced this spring may test the levels of materiality in terms of seeing whether there will be adjustments or not. MS. STUART said she thinks that's right, it will be different, so they are staying in touch with their alternative investments specialist, who has a sense of the market and what companies are doing on valuation. MS. STUART added that it's very common for companies to report on a quarter lag, and she thinks that by the end of July they will have a better sense of whether this year will be significant.

### **B. Discussion of Audit Timeline**

MR. WORLEY said he would like to schedule an Audit Committee meeting October 12<sup>th</sup> or 13<sup>th</sup> to get approval to issue the audited financial statements to the Division of Finance, which are subsequently used in the PERS and TRS comprehensive annual financial reports due by December 31<sup>st</sup>. MS. WISNER added that if their audited financials can be completed by the September 16<sup>th</sup> ARMB meeting, they would get the drafts to the Board and discuss them then. It would depend on KPMG's audit of the contributions and withdrawals on the R&B side.

### **C. Audit Section Report**

MELANIE HELMICK, State Social Security Administrator and one of the division auditors, presented the Audit Section Report. MS. HELMICK said they still have 13 state fiscal year 2019 audits in progress, and they have moved on to 2020 audits and completed five of them. They are doing a lot of desk audits, and they are finding a lot of issues with allowances for cell phones, vehicles, and travel, with term studies, and with making sure people understand the PERS participation agreements. MS. HELMICK said that she continues to provide weekly education regarding Social Security, TRS, and a coverage vote, mostly working with ADA. She noted that Alaska's TRS Social Security issues have been making national news. She said they are working to provide education, though they can't have their biannual conference this year, and she is also working on the 2021 audit T-list, moving all travel from '20 to '21.

MS. HARBO asked whether MS. HELMICK thinks maybe only the small school districts will have a vote, because it would mean an extra 6 percent contribution; MS. HELMICK answered that the most active interest she'd had was from a small, remote school district as a way to retain teachers. She added that not all small school districts could afford it, and she's heard nothing from larger ones.

MR. WORLEY asked MS. HELMICK to discuss the allowances that are in the PERS-eligible income, because during one of the audits they discovered, through notification by the employer, that there was a cyber attack that affected their payroll system. MS. HELMICK said that was the City of Valdez, and when they recreated their payroll system they made some mistakes that resulted in allowances being included in payrolls reported to PERS. MR. WORLEY added that when those items are discovered, a notification is sent to the employer and the DRB has them do corrections

through their payroll system, with assistance from regional counselors.

**D. Committee Requests: Areas of Interest/Review – None.**

**E. Review any legal matters that may impact Fund’s financial statements, the ARMB’s compliance with applicable laws and regulations, and any inquiries received from regulators or governmental agencies**

STUART GOERING said he was not aware of any significant legal matters that would affect the fund’s financial statements, in particular that would increase liabilities or decrease assets. However, a definitive query of every attorney in the department will be triggered by a request from the auditors, typically in July. MR. GOERING went on to say that he is not aware of any noncompliance issues with applicable laws and regulations, and he has not received nor is he aware of any inquiries from either regulators or government agencies. MR. GOERING said that in his legal report to the Board, he would report on matters that are of interest to the Board but may not have met the criteria for reporting through the audit process.

**F. DOR – Treasury**

**1. SOC 1**

MS. WISNER said that SOC 1 refers to Service Organization Controls, and this report from Treasury relates to the examination of an entity’s internal controls. State Street provides two reports, one covering operational control and objectives, and the other covering IT control objectives. She said that she and SCOTT JONES review the reports and go over all deviations with State Street. She said they have reviewed the March 31, 2020 reports with State Street, and they contain unmodified opinions. Also, she said that their third-party reporting vendor, NRS, issues an annual report, and as of December 2019 it had an unmodified opinion.

**2. Accounting/ Financial Personnel Succession**

Treasury Director PAM LEARY said that their administrative assistant in portfolio, MOLLY MCCAFFERTY, retired, and so did BRONZE ICKES, their cash manager. JESSE BLACKWELL, assistant cash manager, will take his place, and GABE ELLENBECKER will be the new assistant cash manager. MS. LEARY said they also have approvals to fill positions left vacant by the moves, which includes two in cash management and two in the portfolio section. She said there were no interns this summer.

**G. DOA – DRB Personnel Structure**

MR. WORLEY reminded everyone that KATHY LEA, former Chief Pension Officer and Deputy Director, retired at the end of May, and has been replaced by JIM PUCKETT, who was the prior director for the division. In the finance section, TIM WAGNER retired at the end of May, and they are currently recruiting for his position. MR. WORLEY said they recently filled an Accountant II position, and are currently recruiting for an Accountant V who will be in charge of IRS compliance for audits.

MR. WORLEY added that they are in the beginning phases of the CRS modernization project, which is the system replacement for the combined retirement system. The company they are working with is Sagitec, and it will be a four-year project, they believe, with CRS continuing to run until the replacement phase, at which time both systems will run for a while. He said that AJAY DESAI will

keep the committees and the Board updated.

**H. Committee Performance** – No comments.

**I. Review Committee Charter and Action Plan** – No comments.

**J. Further Meeting Schedule**

CHAIR JOHNSON pointed out that a schedule is included in the Board packet, and asked MS. ALEXANDER if she had any comments. MS. ALEXANDER said that the Audit Committee will follow its usual pattern with similar schedules for 2020 and 2021. MR. WORLEY suggested October 12<sup>th</sup> to review the audited financial statements, and no one had any conflicts, so MS. ALEXANDER said she would send out an updated calendar reflecting that.

**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 9:02 a.m.

**ATTEST:**

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Corporate Secretary

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