

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
AUDIT COMMITTEE MEETING

Videoconference

MINUTES OF
September 16, 2020

Wednesday, September 16, 2020

ATTENDANCE

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

Committee Absent: None

Other Trustees Present: Lucinda Mahoney

IAC Members Present: None

Department of Revenue Staff Present:

Zachary Hanna, Chief Investment Officer
Kayla Wisner, State Comptroller
Pamela Leary, Director, Treasury Division
Scott Jones, Head of Investment Operations, Performance and Analytics
Stephanie Alexander, Board Liaison
Mike Barnhill, Deputy Commissioner
Michelle Prebula
Ryan Kauzlarich
Grant Ficek
Sean Howard

Department of Administration Staff Present:

Kevin Worley, CFO, Division of Retirement and Benefits
Ajay Desai, Director, Division of Retirement and Benefits
Melanie Helmick, State Social Security Administrator, Division of Retirement and Benefits
Christina Maiquis
Nimeri Denis
Roberto Aceveda

Others Present:

Stuart Goering, Assistant Attorney General, Department of Law
Kevin Dilg, Assistant Attorney General, Department of Law
David Kershner, Buck
Melissa Beedle, KPMG
Elizabeth Stuart, KPMG

I. CALL TO ORDER

CHAIR 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

MS. 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: June 17, 2020

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

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

VI. A. FY20 ARMB Audited Financial Statements

CHAIR JOHNSON introduced MS. STUART, managing partner of KPMG, and MS. BEEDLE, the audit manager for both the Treasury Division audit of the ARMB investments and the retirement system audits for PERS, TRS, et cetera. MS. STUART stated that they have completed the audit of the treasury and the invested assets of the Commissioner and are also in the process of audits relating to the retirement system. She stated that they are continuing to perform testing over the net contributions and withdrawals from the system and are in the process of reviewing the financial statements, having that go through the quality review process. She reported that they did not identify any internal control deficiencies that rose to the level of a significant deficiency or material weakness within Internal Control. She also emphasized that there were no required changes in the accounting policy from those that were adopted in previous years. Slide seven, which was titled Significant Accounting Estimates is the area where most of the emphasis is placed during the audit which is the valuation of private investments. Evaluation tests are performed on all investments that are held for investment. For those that are marketable securities they are able to do a 100 percent validation against national databases which are maintained by their national firm. For private investments that are not marketable and not traded in the market, they use a variety of testing procedures including reviewing the audited financial statements. She stated that private investments tend to be reported on a one- quarter lag and that is because of the timing of information available. The information about values

tends to run about 45 days or so after the period so the values of these private investment as of March 31 was available roughly by the middle of April. As an example, for the private equity holdings the value as of June 30 is about \$300 million greater than the amount that was recorded in the trial balance and in the financial statements when the audit was started. She also said they are working with the Treasury Division management to determine whether that \$300 million difference will be recorded in the financial statements or will be considered an uncorrected audit difference. No conclusion yet from management or the auditors.

CHAIR JOHNSON asked how the conclusion would be noted in the document produced or at least footnoted. MS. STUART stated that there is not a mechanism to footnote that the numbers are not reflective of true June 30 values. The number represents less than 1 percent of the assets. MS. MAHONEY stated that she would like to talk with the Treasury Division manager about getting this booked. MR. WEST asked about what kind of disclosures would be required if the change is booked. MS. STUART stated that there would be no disclosure and no impact to their opinion. MR. WEST asked if it was more because of materiality than the fact that the change was not substantial. MS. STUART affirmed his statement.

B. Update: DRB Audits

CHAIR JOHNSON introduced MR. WORLEY, CFO from the Division of Retirement and Benefits. MR. WORLEY stated that they are waiting the final decision on the private equity alternative investment, if there is going to be an adjustment coming through on the private equity alternative investment. As of now they are progressing as if no adjustment will come through but will make a detour if that does happen. He is in contact with the Treasury Division of the Department of Revenue and they are keeping him informed as well as is KPMG, so they are ready pivot if they need to make an adjustment.

C. Internal Audit Report

MR. WORLEY introduced MS. HELMICK, internal auditor with Division of Retirement and Benefits, she is also the State Social Security Administrator. She explained that she and NIMERI DENIS make up the internal audit team under the supervision of MR. WORLEY. For state fiscal year 2020, they are working to get all the audits done before December 31. The most prevalent issues to date continue to be PERS eligible income. She also stated that a lot of smaller government and schools are moving to contracted positions, so they are auditing for termination of PERS positions. Additionally, she stated that the work she is doing as the State Social Security Administrator involves working with the National Conference of State Social Security Administrators to understand the implications of the CARES act on the state and local government employers and the payroll taxes from those payroll tax credit.

D. Future Audit Committee Topics - None

E. Further Meeting Schedule -

CHAIR JOHNSON opened a discussion about a future meeting being scheduled for October 12th. MR. WORLEY mentioned that he was going to suggest the meeting to start at 10:00 am on October

12th and would work with whoever the ARMB liaison is at that time to go over the meeting.

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 8:47 a.m.

ATTEST:

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.