

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

**Videoconference**

**MINUTES OF**  
**December 2, 2020**

**Wednesday, December 2, 2020**

**ATTENDANCE**

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

**Committee Absent:** None

**Other Trustees Present:**

Commissioner Lucinda Mahoney  
Michael Collins  
Dennis Moen

**Department of Revenue Staff Present:**

Zachary Hanna, Chief Investment Officer  
Pamela Leary, Director, Treasury Division  
Kayla Wisner, State Comptroller  
Mike Barnhill, Deputy Commissioner  
Scott Jones, Head of Investment Operations, Performance & Analytics  
Michelle Prebula, Public Equity & DC Investment Officer  
Grant Ficek, Business Analyst  
Alysia Jones, Board Liaison

**Department of Administration Staff Present:**

Ajay Desai, Director, Division of Retirement and Benefits  
Kevin Worley, Chief Financial Officer, 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  
Roberto Aceveda, Counseling and Education Manger, Division of Retirement and Benefits

**ARMB Legal Counsel Present:**

Stuart Goering, Assistant Attorney General, Department of Law

**Others Present:**

David Kershner, Buck

Paul Erlendson, Callan LLC

Elizabeth Stuart, KPMG

Melissa Beedle, KPMG

**I. CALL TO ORDER**

MR. JOHNSON called the meeting of the ARM Board Audit Committee to order at 9:02 a.m.

**II. ROLL CALL**

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

**III. PUBLIC MEETING NOTICE**

MS. JONES confirmed that public meeting notice requirements had been met.

**IV. DESIGNATION OF CHAIR**

MR. JOHNSON said that when he took over as Chair of the Operations Committee, he indicated that it would be appropriate that a new Chair of the Audit Committee be established. He said he researched the process and exercised his authority as Chairman of the ARM Board to appoint a new Chair of the Audit Committee. He said he chose to appoint MS. HARBO as Chair of the Audit Committee in the absence of any objection from the members. Hearing no objection, CHAIR HARBO was handed the virtual gavel.

**V. A. APPROVAL OF AGENDA**

MR. JOHNSON moved to approve agenda. MR. HIPPLER seconded the motion. The agenda was approved without objection.

**B. APPROVAL OF MINUTES - 9/16/20**

MR. JOHNSON moved to approve the minutes of the September 16, 2020 meeting. MR. HIPPLER seconded the motion. The minutes were approved without objection.

**C. APPROVAL OF MINUTES - 10/12/20**

MR. JOHNSON moved to approve the minutes of October 12, 2020 meeting. MR. HIPPLER seconded the motion. The minutes were approved without objection.

**VI. PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS & APPEARANCES -**  
None.

**VII. REPORTS**

**A. DRB Audited Financial Statements**

MS. BEEDLE reported that they did not have any uncorrected misstatements or corrected misstatements that were identified during their audit of the systems. She said there were no illegal acts or fraud that they came across during the audit.

MS. BEEDLE reported that they had one difficulty related to the National Guard Retirement System; the same issue that had been discussed related to the system's inability to support the accuracy of census data.

MS. BEEDLE stated that there had been no disagreements with management. She said there were no other significant findings or issues discussed related to any of the other systems.

MS. BEEDLE said that they had a material weakness identified related to the National Guard plan. She said they found that the system did not have the appropriate controls in place to determine the accuracy of the census data related to the terminated-but-not-receiving-benefits population of the members that was used by Buck to calculate the total pension liability. She said they identified that as a material weakness that needed to be addressed by the retirement system.

MR. WORLEY said that it was an issue they continue to work with the Department of Military and Veterans Affairs on. He said one of the things that they continually run into was for those members that were in the Guard in Alaska, once they moved out of the state, there was no tracking available through the Alaska Guard to get information on members who transferred out of state.

MR. WORLEY said that they had actuarial assumptions in place for those that are out. He said they had an actuarial loss for people that may have been vested in Alaska, so when they applied, they would show up in retirement either as a lump sum distribution, because they had that option when they were eligible to retire, or they had the continuing payment, and that would show up in the data that was provided to Buck.

MR. WORLEY said that one thing they did within the Division to work on compliance was to acquire the authority to hire an accountant to work on compensation and contribution compliance, working with the actuarial valuation, and their internal auditors. He said that accountant will also work with the Department of Military and Veterans Affairs on that data and then working with KPMG to resolve that material deficiency.

CHAIR HARBO asked what happens to that money if a person leaves the National Guard in Alaska and, goes to Montana and never applies for their compensation from Alaska; MR. WORLEY explained that the money stays in the fund which was currently overfunded in that plan.

MS. BEEDLE said that they did not identify any significant deficiencies or weaknesses related to any other systems.

MS. BEEDLE said that they issued unmodified opinions regarding PERS, TRS, JRS, DCP, and SBS. She said they also issued qualified opinions specifically related to the specific item for National Guard for the 2020 and 2019 fiscal years.

MS. BEEDLE said that there had been no changes to the selection of the accounting policies from prior years. She said they reviewed the policies to make sure that they were consistent with accounting standards and that there were no indications that there was management bias in selecting the accounting policies that were selected.

MS. BEEDLE said they had identified that the calculation of the total pension liabilities and the total OPEB liabilities for each of the systems as being a significant estimate, which would require more audit effort and attention on their part to ensure that those estimates are reported reasonably.

MS. BEEDLE said that management uses Buck to assess the total pension and total OPEB liabilities based on actuarial methods and assumptions that were adopted by the ARM Board. She said as part of their audit they involved their own internal actuary who reviewed the assumptions that were used in line with what he saw across the country in other comparable retirement systems, as well as what was approved by actuarial standards.

MS. BEEDLE said she did not find any indicators that management was selecting assumptions that were unreasonable, and the assumptions were all supported by underlying data as being reasonable to use.

MS. BEEDLE said that they were required to review any other information that may include the audited financial statements for the State of Alaska CAFR, as well as the CAFRs for PERS and TRS. She said when those are ready, they would obtain a draft and review them to ensure the information included was consistent with their audit reports.

MR. WORLEY thanked KPMG for all the work they do on the audits.

**B. GASB 68/75 PERS & TRS Allocation Schedules for Participating Employers**

MR. WORLEY said that they had eight scheduled GASB audits that were related to GASB 68, which was the allocation of the net pension liability for the Defined Benefit Public Employees and Teachers' Retirement Systems. He said they had six audit schedules for the PERS and TRS Defined Contribution Retirement System related to the retiree medical plan, occupational death and disability, and two other schedules for the PERS and TRS Alaska Retiree Healthcare Trusts.

MR. WORLEY said they had received the reports from Buck in October, and had been working with those, prepared the audited footnotes and schedules within. He said the schedules they had been working on were through June 30, 2020, which were the allocation of net pension liability and net other post-employment benefit liability and assets.

MR. WORLEY said that they had to accelerate getting those completed by the end of a calendar year because they had employers that had calendar year reporting, as well as employers that had a September year-end.

MS. BEEDLE said they were working through their partner review process of their financial statements. She said the schedules go through three different partners for review and also send them to their national office for an additional partner review. She said the partner that they had review them was focused 100 percent on GASB, and he reviewed all of the allocation schedules that KPMG issued to make sure that all were consistent and in accordance with GASB rules.

MS. BEEDLE said they should be in a position to issue their opinions on the eight schedules by the end of the calendar year.

MR. JOHNSON asked if they were at a point where it appeared they had a consistent stable of rules or were there changes down the line that could require more work. MS. BEEDLE said that she was not aware of what GASB was thinking, and they could be changing things, but currently believed they had a good set of standards and did not see any other major changes as were seen in the last several years.

MS. STUART said GASB was working on standards that they had issued, that other governments were implementing that were rather extensive. She said those standards did not impact the states' financial statements. She said she was also not aware of any up-and-coming GASB standards that would have a major impact on the states' financial statements.

MR. WORLEY announced that the Division received the Fiscal Year 2019 Certificate of Achievement and Excellence for Financial Reporting from the Government Finance Officers Association, (GFOA). He said they received that award within the last couple of months for both the Public Employees and Teachers' Retirement System. He said they had received the award each year for over 20 years. He said they also received an additional award that will be presented within the letter of transmittal for the PERS and TRS CAFRs.

### **C. Information Update: Employer Audit Report**

MR. WORLEY introduced MELANIE HELMICK, the lead internal auditor within the Division of Retirement and Benefits as well as the State Administrator for Social Security.

MS. HELMICK said for state FY19 they had 34 reports in and that there were five outliers which were problem audits, and they were working with the local government to get the information.

MS. HELMICK said for FY20, they had 10 of 59 audits completed. She said all audits were in progress, and that all audits were desk audits. She said they moved the 2020 travel audits to the 2021 travel budget and then to 2022.

MS. HELMICK said most common employer issues to date were termination studies. She said they discovered many positions had been contracted out and that termination studies had not been completed. She said they discovered allowances had included ineligible PERS and TRS

compensation and some overreporting of PERS and TRS compensation due to vehicle allowances, and housing allowances. She said they found issues of part-time employees working part-time hours but not enrolled in the system and may have been classed as a temp.

MS. HELMICK said that as the State Social Security Administrator, she performed work outside of auditing. She worked the Employer Conference 2020, as well as with the Social Security Administration, and continually follows the CARES Act and how that might affect Social Security and Medicare for employers.

MR. JOHNSON asked if she had seen evidence in her auditing of the employers or heard of any actions taken by folks using the cover of COVID to not do what they were supposed to be doing. MS. HELMICK said she had not seen anything on the state or local level, but had seen reports of fraud and abuse on the federal level.

#### **D. Committee Meeting with Independent Auditors**

CHAIR HARBO asked if anyone had the desire to meet without staff; MR. JOHNSON said he did not see a need to do that. He said that he thought they needed to affirm that they had decided that they were not going to do it if they choose to pass on it. Hearing no requests to meet with the auditors, the Board moved to the next item on the agenda.

#### **E. Update on Internal Audit Function**

MS. WISNER said that her portion of this item was a quick update on the presentation made by Scott Jones and Kevin Worley at the April 3, 2019 Audit Committee meeting. She said that while Treasury did not have a dedicated internal audit function, there were activities performed by Treasury that were considered internal audit functions. She said they included daily contact with their custodial bank, accounting, and other support staff. She said it also included use of databases and automation to enhance operating efficiencies, investment activity monitoring, and producing statutorily required reporting.

MS. WISNER said the Institute of Internal Auditors (IIA) released their findings on the report mentioned in that April 2019 presentation for a framework to define, measure, and communicate the value of internal audit functions. She said she looked forward to sharing the results with the committee at their meeting in March.

MS. HELMICK said the Division of Retirement and Benefits internal audit function provides assurance that the retirement plans are operating as they were intended to; insight to employers for improving controls, processes, and procedures; and objective assessment of their employers.

MR. JOHNSON asked if retirement plans operating as intended included compliance, such as development of health plans and assuring compliance with health plans by our third-party administrators or if she was speaking about pension side. MS. HELMICK confirmed pension side and said she would give more explanation later.

MS. HELMICK said by performing PERS and TRS audits, they provide assurance that the plans are operating in accordance with state and federal guidelines. She said that they also audit all state

and local governments participating in PERS, TRS, SBS, and DCP. She said that they do not routinely perform JRS or NGMRS but were available to do so.

MS. HELMICK explained they audit all employers about every four years, on a rotating schedule, taking into consideration materiality of the systems, known and/or reported issues, and KPMG's census auditing results.

MS. HELMICK said that she wanted to talk about what they do on testing. For PERS participants, participation agreements tell them who should be in PERS and they do both positive and negative tests. She said for TRS they look at certifications and position descriptions requiring that certification. She said that they also work with the Alaska Police Standards Council to test police and fire municipal correction officers to ensure they are classified correctly in PERS.

MS. HELMICK explained that findings are simply issues of noncompliance with a statute, regulation, or federal code. She said they follow up and do a summary of prior findings in the next audit to see if employers corrected the finding.

MS. HELMICK said they audit in accordance with Generally Accepted Government Auditing Standards, and audit guidance from the IIA.

## **VIII. FUTURE MEETINGS**

- A. Calendar Review** - None.
- B. Agenda Items** - None.
- C. Requests/Follow-ups** - None.

**IX. OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE** - None.

**X. PUBLIC/MEMBER COMMENTS** - None.

## **XI. ADJOURNMENT**

MR. JOHNSON moved to adjourn the meeting. MR. BRETZ seconded the motion. The motion passed without objection.

The meeting was adjourned at 9:52 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.