

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
AUDIT COMMITTEE MEETING

Videoconference

MINUTES OF
March 17, 2021

Wednesday, March 17, 2021

ATTENDANCE

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

Committee Absent: None

ARM Board Trustees Present:

Dennis Moen
Don Krohn
Commissioner Tshibaka

Investment Advisory Council Members Present:

Dr. William Jennings
Ruth Ryerson

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
James McKnight, Senior Compliance Officer
Tina Martin, Accountant IV
Ryan Kauzlarich, Accountant V
Alysia Jones, Board Liaison
Grant Ficek, Business Analyst

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, Manager, Division of Retirement and Benefits
Nimeri Denis, Audit & Review Analyst II, 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

Department of Law:

Stuart Goering, Assistant Attorney General, ARMB Legal Counsel
Rob Schmidt, Assistant Attorney General
Kevin Dilg, Assistant Attorney General
Benjamin Hofmeister, Assistant Attorney General

Consultants, Invited Participants, and Others Present:

Paul Erlendson, Callan LLC
Steve Center, Callan LLC
Ben Taylor, Callan LLC
David Kershner, Buck
Paul Wood, Gabriel Roeder Smith
Bill Detweiler, Gabriel Roeder Smith
Melissa Beedle, KPMG
Elizabeth Stuart, KPMG
Marybeth Daubenspeck, Empower

I. CALL TO ORDER

CHAIR HARBO called the meeting of the ARM Board Audit Committee to order at 9:00 a.m.

II. ROLL CALL

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

III. PUBLIC MEETING NOTICE

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

IV. 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 – December 2, 2020

MS. HARBO said there was one correction to the minutes that needed to be made. The next-to-the-last paragraph about MS. HELMICK needed to state they do a follow up.

MR. JOHNSON moved to approve the minutes of the December 2, 2020 meeting. MR. HIPPLER seconded the motion. The minutes were approved without objection.

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

VI. REPORTS

A. Employer Audits

MS. HELMICK said that the report contained information as of February 28th, and they were still working on five state FY2019 audits. She said that MR. DENIS was in the process of issuing the two Galena audits and the other three were outliers which were still on schedule for completion. She said the State FY2020 Audit Summary was in progress and had been moved to desk audits. She stated they were looking at the FY2021 and 2022 schedule but were reaching the end of what they could desk audit and had been looking at travel schedules as they had been missing big employers that were too big for desk audits.

CHAIR HARBO asked if they needed help with the audits. MS HELMICK said that they always needed more help and would love another auditor.

MS. HELMICK stated that MR. DENIS had seen some rehired retirees who were collecting benefits and working, that should be enrolled. She said that she had also seen eligible police officers and municipal correction officers that needed Alaska peace officer certification to be enrolled in the special PERS peace officers' class.

MS. HELMICK said as the State Social Security Administrator, she had completed research for Legislative Affairs and found that the State of Alaska could hold a TRS vote for Social Security by tier. She said that it was allowed in Social Security law, Section 218 of the Social Security Act which states that if the plan is a distinct structured tier plan within the retirement system that: 1) has its own fund or sum of money set apart for the purpose of retirement, pensions, or annuities of that tiers; and 2) that is not commingled with the assets of another tier or plan. MS. HELMICK stated that she had spoken with MR. WORLEY about TRS Tiers 1 and 2 and confirmed those assets were commingled but Tier 3 is a Defined Contribution Plan whose assets were not commingled.

CHAIR HARBO asked if the vote would still be employer by employer; MS. HELMICK said yes.

MR. WORLEY stated that he would like to speak with Ice Miller, their tax legal counsel, to confirm before any sort of voting took place, to ensure that nothing got missed.

B. GASB 68/75 Update for PERS/TRS Defined Benefit Pension and OPEB

MR. WORLEY explained that the allocation schedules for GASB 68 was the allocation of the net pension liabilities allocated by employer for PERS and TRS, and GASB 75 schedules were for both PERS and TRS related to the retiree healthcare trusts, occupational death and disability plan, and the retiree medical plan. He said they had work very hard with Buck and KPMG to get them

issued before the calendar year end, so they were available for calendar year reporters. He said they were also available for planning purposes for June 30, 2021 employers.

C. FY 2020 PERS/TRS CAFR Discussion

MR. WORLEY stated that the CAFR was issued and posted online the end of December. He said that CHAIR HARBO thoroughly reviews the CAFRs and sends him a report each year of what red marks she finds, which he appreciated. He stated they had received an award from the Government Finance Officers Association, which is a one-year award. They also received the Public Pension Coordinating Council award for both PERS and TRS funding and administration by the Division over the PERS and TRS plans, which is also valid for one year.

CHAIR HARBO said that the CAFR was informative and a good read and encouraged the Trustees to look through it. She also congratulated him on the awards.

MR. WORLEY said that he appreciated the work of the entire Division of Retirement and Benefits as it was not just a financial audit, but also an audit of the processes that the Division goes through. He also thanked the Department of Revenue and the Treasury Division for the work they performed. He said along with Callan, Buck, and KPMG - it was a huge group effort.

D. Compliance Report and Update

MR. McKNIGHT provided a rundown of the investment compliance program for 2020. He explained they had been testing 26 ARM Board funds in Bloomberg and 26 in their internal tests. He said that every morning they would download all holdings from State Street and upload them into Bloomberg, who then automatically ran them through a series of tests, and he received a report from those tests. He said they also run a series of manual tests in Excel on a daily basis to verify the results.

MR. McKNIGHT stated they had lost two types of funds, but still had fixed income, equity, REITS, and opportunistic funds in several different plans; they were down to 12,000 securities per day. He noted that they run over 100 compliance rules daily.

MR. McKNIGHT said that aside from the daily checks mentioned earlier, they also performed several other daily and monthly checks. He stated that as issues come to their attention, they either run it by State Street or the investment staff, and errors have decreased. He gave the example of less overdraft in 2020 as compared to 2019.

MR. McKNIGHT said that they use to have an issue with the Commission Recapture Program, but since they were down to only one manager actively participating in the program, the amount of money directed was only \$38,000, which led to \$14,000 rebated last year.

MR. McKNIGHT said that the policy on proxy voting was to send out reminders to managers every year. The managers in turn send in their proxy votes as well as statements saying all the votes were in the best interest of the ARM Board. He said they typically receive a Freedom of Information Act request each year for that information and they provide a report of all of their votes.

MR. JOHNSON asked if they saw changes with respect to proxies as to what their proxy assessments

might be; MR. McKNIGHT said that there had been two managers who were hesitant to sign off on the statements. He said that they had spoken with the managers and discussed their concerns; the managers then agreed and signed the statements saying everything they voted was in the ARM Board best interest policy. He noted that most managers also have an internal proxy policy. He said they had not encountered his specific question yet, but that it may happen at some point.

CHAIR HARBO asked if that was a standard for most pension funds; MR. McKNIGHT said MR. BARNHILL had completed research on that and had pointed out that the ARM Board was at the top of the spectrum of having no wiggle room in their investments in that regard.

E. Update on Internal Audit

MS. WISNER said her presentation was an update to the Treasury presentation given to the committee in April 2019. She said there were three main objectives that the internal audit provides independent assurance on. She said they review SOC 1 reporting, they have daily contact with custody, accounting, and other support staff at State Street Bank, and they maintained the Funds Transfer and Transaction Security Operating Procedures document with the custodial bank which governs who in Treasury is able to initiate and verify cash transfers.

MS. WISNER said Treasury enhanced efficiency with the use of databases and automation. They streamlined reconciliations, capital calls, fee accruals, and the portfolio moved external mandates into internal mandates. She said compliance was maintained by portfolio compliance and the accounting staff through investment activity monitoring, internal pre-trade compliance, and providing statutorily required reporting to entities outside of Treasury, maintaining GASB compliance in financial reporting, and contract monitoring.

MS. WISNER said that the Institute of Internal Auditors, (IIA) conducted in-depth interviews with 11 chief audit executives from different industries and countries, which enabled researchers to create a survey that was sent to the members of the IAA. They received 336 responses which resulted in a report that provided a basis from which organizations were able to demonstrate the value of internal audits.

MS. WISNER said the Audit Committee and management defined and framed the conditions and direction of the internal audit function, (IAF), which should fall within the expectations of key stakeholders.

MS. WISNER explained the different levels of value. She said governance, risk management and control partners were about establishing trust within organizations while providing service and assurance. She explained a trusted advisor strives for efficiency and effectiveness and a value driver, which is auditing what truly matter to the success of an organization by aligning IAF with the organization's strategy.

MS. WISNER explained a study was conducted and found the top three key performance indicators that were most useful in measuring value were percentage of audit plan completion, timely closures of audit issues and external quality assessments to ensure they conform with standards of the profession. She also said that status updates throughout the year assist in identifying issues and what

actions to take to address those issues.

MS. WISNER noted the Treasury Division does not staff an internal auditor but was undergoing risk analyses to assess critical risks within the Division. She said once risks were identified Treasury would make an informed decision as to having a dedicated internal audit function.

CHAIR HARBO asked for confirmation that the five other pension funds being under one house; MS. WISNER stated that was correct, they were not bifurcated the way the ARM Board was; MR. JOHNSON asked what the Audit Committee should be doing in order to make the Department of Revenue's work appropriate. MS. WISNER stated that she did not believe there was anything more the Audit Committee should do at this time.

MS. LEARY reiterated what MS. WISNER stated in her presentation. She also said that they would do more work to ascertain if something may be needed in the future, keeping in mind the cost/benefit component.

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 9:43 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.