

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
AUDIT COMMITTEE MEETING

Videoconference

MINUTES OF
June 16, 2021

Wednesday, June 16, 2021

ATTENDANCE

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

Committee Absent:
None

ARM Board Trustees Present:
Dennis Moen
Donald Krohn

IAC Members Present:
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
Ryan Kauzlarich, Accountant V
Benjamin Garrett, Assistant Investment Officer
Hunter Romberg, State Investment Officer
Alysia Jones, Board Liaison
Grant Ficek, Business Analyst

Department of Administration Staff Present:
Ajay Desai, Director, Division of Retirement and Benefits
Kevin Worley, CFO, Division of Retirement and Benefits

James Puckett, Chief Pension Officer, Division of Retirement and Benefits
Melanie Helmick, State Social Security Administrator, Division of Retirement and Benefits
Roberto Aceveda, Counseling and Education Manager, Division of Retirement and Benefits

ARMB Legal Counsel Present:

Benjamin Hofmeister, AAG, Department of Law
Rob Schmidt, AAG, Department of Law

Consultants, Invited Participants, and Others Present:

Elizabeth Stuart, KPMG
Melissa Beedle, KPMG
Randall Burns, Public RPEA

I. CALL TO ORDER

CHAIR GAYLE 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 the agenda. MR. BRETZ seconded the motion. The agenda was approved without objection.

B. APPROVAL OF MINUTES: March 17, 2021

MR. JOHNSON moved to approve the minutes of the March 17, 2021 meeting. MR. BRETZ seconded the motion. The minutes were approved without objection.

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

VI. REPORTS

A. Review Independent Auditors' Audit Plan

MS. STUART explained that the presentation was the audit of the June 30, 2021 year end plans and that they would issue the reports in the fall. She explained that they were considering being engaged for an audit each year and that they had completed a risk assessment process to ensure their comfort level for accepting the audit engagement.

MS. STUART explained that part of the engagement consisted of issuing the audit of the financial statements of PERS, TRS, Judicial, National Guard, Deferred Comp Plan, and the Supplemental Benefits System. She said they also issue financial statements of two schedules of employer allocations. She explained that part of the scope of the audit was to audit scheduled allocations of

how the PERS system and the TRS system were allocated across various school districts and allocated across various municipalities, then they audited the plan obligation and how those assets were assigned to the plans and how the plans are allocated to the communities throughout the state.

MS. STUART said that with every audit, they assess the risk management overrides and controls as significant risk, and for those audits they considered the valuation of alternative investments to be a significant risk because those investments were not publicly traded and hard to value. She said they also performed audit procedures over the valuation of the net pension and postemployment benefit obligation. MS. STUART noted that there were no new accounting rules this year.

MS. STUART referenced several slides pertaining to the Audit Plan and Summary of their approach and required communications as well as the timelines and materiality in the context of an audit. She explained that they assess materiality of the audit plan by determining what the number may be, which is typically a percentage of assets or contributions in the single digit range.

MR. JOHNSON asked if they had come across any matters with respect to the accounts where there were problem areas that had dropped off the map because of materiality; MS. STUART said that they assess materiality in each individual plan, that there were some accounts that they would not audit because they did not think they could be materially wrong. She explained that those tend to be administrative expenses and administrative functions of the plans. She said they do audit the investments and the allocation of the investments across the plans, as well as the contributions, distributions, and benefit payments. MR. JOHNSON then asked if that meant that they were not providing the Board with any instruction of information on those types of things; MS. STUART explained that for administrative costs they evaluate it as if the number makes sense. She said, as an example that if the numbers were 12 times what they had been in the previous year, they would ask questions.

CHAIR HARBO commented that sometimes administrative costs go up when there was a new GASB requirement; MS. STUART said they were focusing on the big picture of the financial statements.

MS. STUART stated that there were two primary risks to audits, one was management override of controls, and the other risk was the valuation of alternative investments. She said the alternatives that are managed by the Division were reported on a lag basis which means late adjustments would be captured as a result of that and were considered harder to value.

MS. STUART discussed their approach to fraud risk which focused on material fraud within the financial statements. She said that they also focus on the valuation of the net pension liability and other postemployment benefit liabilities which were estimates for the plan and also would lead to the claims incurred but not reported and amounts not yet due.

MS. STUART explained that KPMG employs actuaries that specialize in auditing and they use an actuary that specializes in the actuarial obligations of government plans. She said they also use a GASB specialist that reviews the KPMG audit of benefit plans of governments all over the country.

MS. STUART referenced slide 13 and asked the Board to read the questions and to reach out to her

with any concerns as to what should be the focus of the audits.

CHAIR HARBO asked if DOA would make them aware of any fraud; MS. STUART confirmed that but also said that if anyone becomes aware of fraud to let them know.

MS. STUART explained that during the audit process, they focused primarily on the financial statements and kept in mind the increased cybersecurity risk. She said that as part of their audit at a high level they understand the Divisions' processes to mitigate the risks.

MR. WORLEY stated that there would be a presentation during the Executive Session the next day that related to cybersecurity and that they had been working with different vendors that have PII.

MR. JOHNSON asked if they had consultations with the Feds on cybersecurity issues that were being discussed; MS. STUART stated that she did not know how the firm was interacting at that level. She stated that they routinely complete training throughout the year regarding that subject.

B. Discussion of Audit Timeline

MS. WISNER commented that if the financials were ready by the September 22nd meeting, they would present the draft for approval, otherwise they would present them in October.

MR. WORLEY pointed out that within the packet was the audit schedule for all the financial statements that the Division of Retirement and Benefits had audited, as well as the timeframe for the issuance of the Annual Comprehensive Financial Report. He said that the Division of Finance would like to have the final audited financial statements by October 15th for inclusion in the state's Annual Comprehensive Financial Report. He said in order to meet the deadline, the Division proposed an October 11 Audit Committee meeting from 10:00 a.m. to noon and would have information available at least a week before. He said that Buck, Segal, and KPMG were all on board with that proposed date.

C. Renaming the Comprehensive Annual Financial Report to Annual Comprehensive Financial Reports

MR. WORLEY explained that GASB is the standard followed for all their audited statements which also applies to the GASB 68 and 75 allocation schedules. He said GFOA is an organization they submit their annual financial reports to. He also explained that the current term for the annual financial report was CAFR which was found to be derogatory in different parts of the world and has chosen to use the term ACFR.

MR. WORLEY stated that CHAIR JOHNSON had a question about information in the state's annual financial report starting at page 154. MR. WORLEY did not have that information available during his presentation but would send it to MS. JONES to share with the committee. He said that CHAIR JOHNSON specifically asked about disclosure information that was related to PERS, TRS, JRS, National Guard, SBS, and Deferred Comp. His concern was regarding the differences between what was showing in the financial statements versus what the state was showing in theirs. MR. WORLEY explained that the information shown in the state's single audit only relates to the State of Alaska as

a participating employer, not to the whole plan.

MR. JOHNSON asked if there was anything that suggested discrepancies between the Division's and KPMG's approach for the same year period and where does the board of trustees look to see that accounting has been done correctly; MR. WORLEY said that the Division followed the guidelines established for each of the trust funds and within those guidelines were recommendations on proper charging of funds as well as the best way to discuss those matters. He said that his division works with Maximus, a cost allocation company.

MS. RYERSON asked if they had an internal audit department that reported directly to them; MR. WORLEY said that his Division did have an internal audit section that audits the compliance of the employers but not work the Division does; MS. RYERSON asked if he had considered having an internal auditor for them; MR. WORLEY said that was a cost related issue and in his opinion the state was looking at reducing personnel, rather than increasing.

MR. JOHNSON asked if it would be helpful for the Board, at the committee level, to hear from Maximus to give an insight into how the system worked; MR. WORLEY said that he would have to discuss that with the contract holder and would get the information out through MS. JONES.

MS. HARBO explained that they do ask for more help with their auditing each year and the staff does an incredible job. MS. RYERSON said that even if the team is great, an internal auditor would be a good verification step.

MR. WORLEY explained that if they get an invoice for services, they are entered and certified by the administrative services section which oversees the financial activities. He also said that OMB has oversight to charges over \$25,000.00.

MS. STUART said that the lack of internal audit is a challenge for many organizations. Internal auditors are difficult to find. She said that if there was a specific procedure they wanted a report on, or if there was a concern of something that was not in the financial statement audit, they were available to do that as well.

D. Audit Section Report

MR. WORLEY introduced MS. MELANIE HELMICK and explained that she was the lead internal auditor within their section and would be providing the report through the third quarter.

MS. HELMICK explained that MR. WORLEY had hired a new accountant and that her main duty was to work with MR. WORLEY on compliance, but that she would also lead some of the day-to-day activities of the audit unit.

MS. HELMICK said that she and MR. NIMERI were the two auditors, and they audit all PERS and TRS participating employers except for the state. She said currently there were 165 PERS and 58 TRS employers and while they audit for PERS and TRS compliance, they also audit for SBS and DCP compliance. She said one of the things she looks for during the audits is Social Security and Medicare withholdings.

MS. HELMICK stated that due to COVID and lack of a travel budget since 2019 their numbers had gone down. She said they had performed 60 desk audits within the last three years and hoped to travel for 21 audits as it was not always possible to perform desk audits.

MS. HELMICK explained that they performed four audits during the reporting period. She said they found nine employees who were PERS eligible and not yet enrolled. They also found two retired teachers that were enrolled in PERS but not TRS, that were not working PERS-eligible hours. She said they also found temporary employees, which they find in every audit, that had been working in excess of two years which would put them as a permanent PERS-eligible position.

MS. HELMICK mentioned the Social Security Fairness Act of 2021 (HR82) which was introduced to eliminate the Windfall Elimination Provision (WEP) for Social Security and Government Pension Offset (GPO). She said the bill had been in the House Ways and Means since its introduction into the 2021-2022 U.S. Congress in January. She said they had seen similar legislation several times to eliminate WEP and GPO and that it affects over 2 million governmental employees.

MR. WORLEY added that when audit reports were issued that identify concerns found in review of employee data, they work with the regional counselors within the Division to correct the issues found.

MS. HARBO asked if these issues were found in small systems; MS. HELMICK said that they were. MS. HARBO asked if it was where there would be one or two for an employer; MS. HELMICK said yes. MR. WORLEY explained that due to COVID or the size of the community, there was a high turnover in the positions and the employees were not familiar with PERS and TRS enrollment.

MR. BRETZ asked if there was an audit of those that had already retired to ensure that they were supposed to be receiving benefits; MS. HELMICK said yes.

MS. HELMICK explained that when they pull records, they pull everyone who is in PERS and TRS and pull the W-2's issued for the year which is how she finds a lot of the errors.

MR. WORLEY explained that Buck is another set of eyes for the pension data. If they find a person this year that did not exist last year, they flag that for review.

MR. BRETZ asked about cyber risk and making sure people receiving benefits nationally and internationally are alive. MR. WORLEY said the Office of Information Technology is doing their cyber scans and that he'd need to speak with their IT staff for more details on that. He added that they are doing some work on international but would have to circle back on that point.

E. Committee Requests: Areas of Interest/Review - These were previously discussed.

F. 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

MR. BENJAMIN HOFMEISTER introduced himself as an assistant attorney general just assigned to

the ARM Board. He said the Metcalfe case, which had just been remanded from the Supreme Court back down to the Superior Court for further briefing was about the diminishment clause which applies to the statutory right of reinstatement and restoration that had been previously repealed in 2005. He explained the effect of that was that the Defined Benefit Plan has opened up. He said DRB was aware of the decision and that there was no timeline as of yet.

CHAIR HARBO asked if there were 78,000 people affected by the decision; MR. HOFMEISTER said it was more like 77,000 and suggested the Board think of the number as the absolute potential, but not the actual number as there were a lot of qualifying factors. CHAIR HARBO said one of the biggest impacts would be healthcare because those people were entitled to healthcare, so she is concerned about that decision.

G. DOR – Treasury
1. SOC 1

MS. WISNER reminded the Audit Committee about the new policy that was implemented last year - that they were holding their books open until August 31st to account for as many June 30th alternative asset statements as they could, to be recorded in order to eliminate the possibility of a large unadjusted audit difference like what was seen last year.

MS. WISNER referred to the PDF on page 61 of the packet regarding SOC 1 reports which had been reviewed, indicating an unmodified opinion. She said the report related to the examination of an entity's internal controls. She explained that two reports were issued, one covered operational control objectives and the other covered IT control objectives. She said that she had spoken with State Street to discuss any deviations and found that none of the deviations pertained to the services received from State Street.

MS. WISNER said that their third-party reporting vendor, NRS also issued an annual report. She said that as of December 31, 2020, there was an unmodified opinion.

2. Accounting/ Financial Personnel Succession (Organization Chart)

MS. LEARY said that at the time the chart was distributed, there were only three vacancies, they had five vacancies at the time of this meeting. She said two Accountant IVs had left, one in asset accounting who ended his career with the state and the other in cash management had transferred to another division.

MS. LEARY said that they had been teleworking during that time period and that one of the focuses that Treasury had been working on was developing metrics, task lists, and documentation of all work they perform. She said the metrics and tasks had allowed them to quickly reorganize when vacancies occur.

MR. BRETZ asked if they were still teleworking; MS. LEARY said they were, and each division was looking into developing a hybrid telework policy. She said some people had chosen to work either full-time or part-time in the office, but they had not fully come back into the office.

H. DOA – DRB Personnel Structure (Organization Chart)

MR. WORLEY stated that their chart could be found on page 63 of the PDF packet. He said that as mentioned earlier, they had added an Accountant V into the audit compliance section. The position reports to him and has day-to-day oversight of the internal audit crew, working with reports and scheduling audits of employers. He said that position was also responsible for working with the accounting and payroll section regarding compliance with W-2 reporting, 1099's, etc., and working with the actuary. He said the position would also be working with and responsible for data transmission and questions and answers that come from Buck.

MR. WORLEY said they had turnover that related to retirements. He said that they too had been teleworking and had provided an updated telework agreement. He said a majority of the people were working hybrid shifts - working a few days in office and then the remainder from home. He said the Division has laptops and docking stations at the office and the employees had VPNs. He also said that certain sections had returned for full time in office working.

I. Committee Performance – Self Assessment - No comments.

J. Review Committee Charter and Action Plan – No comments.

VII. Future Meeting Schedule

A. Calendar Review

1. Date Selection - Review of Audited Financial Statements (October 2021)

CHAIR HARBO noted there would be the September 22nd meeting, then October 11th.

B. Agenda Items - None.

C. Requests/Follow-Ups - None.

VIII. OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE - None.

IX. PUBLIC/MEMBER COMMENTS - None.

X. ADJOURNMENT

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

The meeting was adjourned at 10:22 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.