

State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
AUDIT COMMITTEE MEETING

Videoconference

MINUTES OF
December 1, 2021

Wednesday, December 1, 2021

ATTENDANCE

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

Committee Absent:
None

ARM Board Trustees Present:
Dennis Moen

IAC Members Present:
Dr. William Jennings

Department of Revenue Staff Present:
Zachary Hanna, Chief Investment Officer
Pamela Leary, Director, Treasury Division
Brian Fechter, Deputy Commissioner
Scott Jones, Head of Investment Operations, Performance & Analytics
Ryan Kauzlarich, Accountant V
James McKnight, State Investment Officer
Alysia Jones, Board Liaison
Grant Ficek, Business Analyst

Department of Administration Staff Present:
Ajay Desai, Director, Division of Retirement and Benefits
Jim Puckett, Deputy Director, Division of Retirement and Benefits
Kevin Worley, Chief Financial Officer, Division of Retirement and Benefits
Traci Walther, Accountant V, 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
Emily Ricci, Health Care Policy Administrator, Division of Retirement and Benefits
Amanda Pillifant, Commissioner's Office

ARMB Legal Counsel Present:

Benjamin Hofmeister, AAG, Department of Law

Consultants, Invited Participants, and Others Present:

Melissa Beedle, KPMG
Elizabeth Stuart, KPMG
Michael Holmes, Maximus
William Maus, Maximus

I. CALL TO ORDER

CHAIR GAYLE HARBO called the meeting of the ARM Board Audit Committee to order at 9:15 a.m.

II. ROLL CALL

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

III. PUBLIC MEETING NOTICE

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

IV. A. APPROVAL OF AGENDA

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

B. APPROVAL OF MINUTES: October 15, 2021

MR. JOHNSON moved to approve the minutes of the October 15, 2021 meeting. MR. KROHN seconded the motion. The minutes were approved without objection.

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

VI. REPORTS

A. DRB Audited Financial Statements

MS. BEEDLE began the presentation with slide 3. She noted that they had completed the audits of PERS, TRS, JRS, SBS and DCP and had issued unmodified audit opinions and that they had not yet completed the audit of the National Guard system due to issues with the census data.

MS. BEEDLE said the slide listed the required communications as set out by GASB auditing standards and that there were no significant unusual transactions identified during the audit. She noted no adverse communications related to financial presentation or disclosure omissions. She said

the review of non-GAAP policies found no matters that resulted in a material error or a material impact on the financial statements. She said they did not have changes to the planned audit strategy and no matters to report related to significant account policies.

MS. BEEDLE noted that the next slide showed more required communications with no substantive matters to report. She noted that the following slide showed one uncorrected audit misstatement. She explained that in September they had presented the Treasury results and had been close to completion of the audit of the invested assets report. She explained subsequent to that date and when they issued that report, additional valuations came in related to private equity that related to the June 30 statements that they had provided in the past, which was approximately \$79 million of private equity investment to increase that balance.

MS. BEEDLE noted the next slide explained part of the reason why National Guard was not yet completed. She explained that as part of their review they went through the assumptions that were used to calculate total pension liability disclosed in the footnotes of the financial statements. She said that initially the discount rate used to calculate the liability was 7 percent but through reviews and discussions with Buck and a review of the investment allocation, 7 percent was not supported by the investments in National Guard. She said they worked with management and Buck and decreased the assumption to 5.75 percent which increased the total pension liability by \$2.5 million for National Guard.

MR. JOHNSON asked if they were making a determination to lower the discount rate for that system, what would cause them to act in the same fashion with respect to PERS, and TRS; MS. BEEDLE said they reviewed that for PERS, TRS, and JRS so while that discount rate was supported for those plans, it was not supported for the National Guard

MR. WORLEY clarified that when the Governmental Accounting Standards Board issued the new GASBs, the idea was to separate the funding portion of contributions versus the accounting.

MS. BEEDLE said that as a result of the misstatement and its size, it was considered material to the National Guard system and required adjustment. She noted that they had identified a material weakness in internal controls related to it, that management did not have an adequate process in place to review the appropriateness of the discount rate assumption. She said that GASB 68 did require benefits accounting related to the funding allocation and required that the forward-looking assumptions be reviewed on an annual basis which did not happen. She stated that they planned to issue a qualified opinion on the National Guard Plan similar to what we issued in the past.

MR. WORLEY stated that they were still dealing with the census issues with National Guard, but the process was getting better, and they were discussing a memorandum of agreement with the Department of Military and Veteran Affairs.

CHAIR HARBO asked if they had a turnover in personnel that created the problem; MR. WORLEY said they did, especially 10 years ago when they were sending troops overseas. He said he thought the MOA would alleviate the issue.

MS. BEEDLE moved on to the next slide which showed the significant accounting policies and practices and said there had been no changes to the policies and they did not identify any selection bias. She said for significant accounting estimates, they would focus on the biggest ones, which were the total pension liability, net pension liability and total OPEB liabilities. She noted that as part of their audit they reviewed a lot of the data that went into calculating the liabilities as well as the assumptions and found that with most of the systems, the assumptions were reasonable and supported.

MR. WORLEY said they were adding this step in the areas where they had the issuance of prior disclosure in related financial statements.

MS. BEEDLE said they made changes to the audit this year in the way of data analysis and shared summaries of the changes. She explained that there were two areas, contributions, and benefit payments, and for each system they use Power BI for additional data analysis. She said that enabled them to analyze and identify outliers and any areas where there were specific questions. She said they used Alteryx and Power BI to run and compare last year's census data and this year's data to identify any unusual changes that were made, such as a correction in a date of birth. She said it also allowed them to identify additions to PERS and TRS that were unexpected additions. She noted that they were expecting to be able to further integrate more data analysis into their audit and provide more analytic inspection.

MS. BEEDLE noted that the last few slides provided some dashboards of things they had seen. She explained one related to PERS, and that each bar represented a \$10,000 group, with the line being the number of members and the height of the bar was the total dollar amount. She said they had them for each of the other systems.

MR. HIPPLER asked what she would suggest as a modification to the procedures and policies to avoid material weaknesses in the future; MS. BEEDLE said that for the National Guard, there was the difference in the discount rate and the specific assumption used in the accounting evaluation and that she was not sure if that discount rate would make a difference.

MR. WORLEY said they look at it annually, and with GASB, they do a valuation report that they send to the Actuarial Committee. He noted that there were two different things, the accounting presentation versus the actuarial funding of the plan, that they were not tied together.

MS. BEEDLE explained that MR. WORLEY works with Buck to implement the process to review them for the National Guard and other plans every other year for the accounting side.

MR. WORLEY said that the packet contained the final audit reports at pages 27 through 291, as well as the management representation letters that the Division Director, MR. DESAI and the Chief Pension Officer, MR. PUCKET, the Health Care Administrator, MS. RICCI, and himself sign.

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

MR. WORLEY noted that due to timing of the reports, the BEARS project and staffing shortages due to personal or family-related medical issues, they were behind on the allocation schedules but will have a telephonic follow-up the week of January 10th. He said they had completed their side of the

schedules and they would have to go through a review by KPMG. He said there should be no problem issuing them in January for the participating employers that need them for September to December year-end reporting.

CHAIR HARBO commented that because some employers are on a calendar year, some on a fiscal year, January should work for everyone; MR. WORLEY said that was correct.

C. Internal Audit Report

MR. WORLEY introduced TRACI WALTHER, a new staff person that worked with the Division as an Accountant V, which was a new compliance position that they had requested approximately three years prior. He explained that she oversees the day-to-day work of the internal audit group comprised of MS. HELMICK and MR. DENIS and she would be participating in the Audit Committee. He said that she also has worked related to the actuarial valuation and with the BEARS project, including compliance work on benefit payments and are they within the Internal Revenue Code.

MS. HELMICK said that for calendar year 2021 they had finished seven PERS employers and five TRS employers and had added the Housing Authority in Barrow. She said that they had just finished up the report; that it was a clean report.

MS. HELMICK said that they had been working on State Social Security Administrator work and that she and MS. WALTHER had attended the National Conference of State Social Security Administrators in September, which they found to be a great learning experience. She said they had received a request for a federal Social Security vote from the Association of Village Council Presidents Regional Housing Authority in Bethel, who were not a PERS participant but were in Social Security and were voting to cover their retirement system members.

MS. HELMICK said that on the last page of their presentation, was a list of what they were going to do for state fiscal year 2022. She noted that they were always six to 12 months behind when they audit and were reporting for that as well. She said she and MS. WALTHER were approved to go on another trip for state fiscal year 2022; they will be going to Fairbanks to perform three audits.

CHAIR HARBO asked if that would be the only audit for this year that they were performing; MS. HELMICK confirmed that it was.

MR. KROHN asked if there were any delinquent contributions; MS. HELMICK said there were, and they could provide a list.

CHAIR HARBO noted that usually the delinquent accounts were very small; MR. WORLEY confirmed that was the case.

D. Committee meeting with Independent Auditors

CHAIR HARBO asked if anyone objected to moving to item VII, with no objections they moved on.

VII. Renaming the CAFR to ACFR

MR. WORLEY noted that the attachment was located on page 294 of the PDF Board packet,

renaming the Comprehensive Annual Financial Report to the Annual Comprehensive Financial Report. He said they had reported on it at the last two committee meetings, that the GASB passed on October 19th, GASB 68 renaming the CAFR to the ACFR.

MR. WORLEY said that they are required by Alaska Statute to provide an Annual Comprehensive Financial Report by December 31. He said they provide the report to the Trustees, the governor's office, and the Alaska Legislature. He said that KPMG does review it prior to being published to verify the financial information had not changed.

VIII. Cost Allocation Discussion – Maximus

MR. WORLEY said that as per the request from ARMB CHAIR JOHNSON, a discussion was had with Maximus about the cost allocation plan which was administered by the Division of Finance. He said that they had two representatives from Maximus at the meeting and introduce MR. MICHAEL HOLMES, vice-president of financial services and MR. WILLIAM MAUS, the manager of Maximus.

MR. HOLMES introduced himself and said that he had been with Maximus for 32 years focusing on state cost allocation and federal negotiation. He noted that his slides were full of information but would not discuss every item.

MR. MAUS introduced himself and said that he had been working with the State of Alaska since 2009.

MR. HOLMES said that some of the items for the presentation were an explanation of what SWCAP was and how it was tied to the 2 CFR. He said that SWCAP was an acronym for Statewide Cost Allocation Plan which reflected any costs or billings from central agencies to individual state agencies that manage federal programs and federal grants. He said it gives the federal government a single source of oversight for any state-related costs that were applied to federal programs.

MR. HOLMES explained there were two sections of the SWCAP. He said section I represented allocated costs and the most common was related to statewide human resources, finance and accounting and procurement. He said that all operations incur costs, and the federal statues allow states to perform an allocation process that identified costs to each benefiting agency. He said the second part of the SWCAP was the Section II costs, which they called the direct-billed service such as IT services, building leases, insurance, and pension/retirement contributions.

MR. HOLMES explained that retirements for self-insurance funds, fringe benefit costs, and pension and post-retirement health insurance plans, they were supposed to report the government unit's funding policies if they were different from actuarially determined rates, the pension plan's costs accrued for the year, the amounts funded and the date of funding, a copy of the actuarial report with assumptions, the plan trustee's report, and a schedule of activity showing the value of the interest cost associated with late funding.

MR. HOLMES said that prior to 2014, state, local and tribal governments operated under OMB Circular A-87, education institutions were under A-21 and non-profits were under A-122. He said

they all basically had the same level of information, but some things were not consistent across all three cost principles. He said in 2004 the federal government eliminated use of the circulars and collapsed all three into the 2 CFR Part 200, Subpart E, for cost principles and Appendix VII. He noted that 2 CFR Part 200 stood for the Code of Federal Regulations which established a model where any future changes would be managed through the Federal Regulations.

MR. HOLMES said that within the federal regulation was the definition of allowable costs. He said one of the key points was that the cost must be necessary and reasonable for proper and efficient performance of federal programs. He listed some of the allowable costs as staff salary and wages, fringe benefits, depreciation, and most standard operating expenditures. He also listed unallowable costs as bad debt, capital outlay, contributions to reserve funds, R&D costs, fines and penalties, lobbying, and performance audits.

MR. HOLMES explained that when they prepared the SWCAP for the State of Alaska, they review all the transactional details to ensure that none of the unallowable costs were included in the report. He noted that if they see these types of transactions in their costs, they exclude them, identify them as unallowable, but that they are used to reconcile with total and actual financial statements.

MR. HOLMES then explained that Maximus had been in business for 40 years and was the nation's leading cost allocation firm, that they had experience in negotiation with the U.S. Department of Health and Human Services cost allocation services, and that they had prepared the Alaska SWCAP since 1989.

MR. HOLMES said that Maximus had updated the narrative cost allocation plan for the Department of Administration Retirement and Benefits CAP in 2006, that it was a narrative and an Excel-based model. He said that it was now completed annually by the Division of Retirement and Benefits and Maximus reviews it for compliance. He said the purpose was to allocate DRB's indirect costs in the various sections and units to the benefiting retirement plans.

MR. JOHNSON noted that MR. HOLMES was describing the CAP for the Division of Retirement and Benefits, then asked if it was pursuant to a different contractual relationship with them than their obligations to develop a report for the federal government, or was it that their reports to the federal government form the basis for them to do the allocations internally to the Division; MR. MAUS said that when they are under contract by the state to provide a SWCAP Section II report, they worked as a collector and gatherer of the data. He said they compiled the data and ensured that they provided the federal government with all of the information they required. He said that in this case, DRB was doing their own cost allocation and that Maximus had no direct contractual relationship with them; MR. JOHNSON asked if they advise the Division on whether their allocation process and procedures were accurate; MR. MAUS said they did not have a specific scope of work to perform that role.

MR. MAUS explained that much of the SWCAP process was providing the Feds with a high level of reporting, and if they came back to the state, Maximus would potentially assist DRB in pointing out methods of justifying their split.

MR. MAUS said that the second cost allocation plan incorporated into SWCAP was the Department

of Revenue's Treasury Division cost allocation plan that was supported by an Excel model calculation of how costs were allocated to the benefiting retirement funds and other funds. He said DOR Division of Treasury completed the report annually which was then reviewed by them for compliance and incorporated into the SWCAP for federal submission.

CHAIR HARBO asked if the report was completed at the end of the fiscal year; MS. LEARY said it was completed and had been completed ahead of the fiscal year. She said they use their March 31 asset base to determine what the cost allocation baseline was for the following year.

MR. MAUS noted that the SWCAP filing process was six months after the close of the fiscal year.

IX. Periodic Self-Assessment

CHAIR HARBO requested the Committee turn to the question in the packet and read them to see if anyone had any comments.

CHAIR HARBO read the questions as follows:

"Are discussions at the committee level meaningful, and if not, what can be done about it?" No response given.

"Is the committee touching on key issues?" No response given.

"Is the committee giving appropriate time to key issues?" No response given.

"Does the work of the Audit Committee appropriately meet the needs of the Board by reducing necessary Board meeting time spent on matters that come before the Audit Committee?" MR. HIPPLER responded by saying that he thought the answer to the question was yes. MR. JOHNSON said he thought they could infer the answer to all questions is yes unless there is some material issue.

X. Review Committee Charter - None.

XI. Future Meetings

A. Calendar Review

CHAIR HARBO noted that per MR. WORLEY, there would be a teleconference the week of January 10, 2022.

B. Agenda Items

MR. JOHNSON expressed his appreciation for Maximus' presentation and said that he would like to hear from DOR and DRB on how they made decisions on what was allocated between statewide agency claims and what was allocated to the retirement boards, or the Department of Law. He wanted to know who made the determinations and if there was any outside advice being given. CHAIR HARBO asked if he would like that for the Audit Committee and the Operations Committee; MR. JOHNSON said that it sounded like an audit issue; MS. LEARY said that she was prepared to discuss that.

MS. LEARY explained that their cost allocation methods were captured as examples in the

presentation. She said that the basis of the cost allocation was quite simple. She said that they have a certain number of people that were allocated, they had telephone costs that were allocated by the number of people that had telephones and the like.

CHAIR HARBO asked what about people working from home during COVID, did the cost remain the same; MS. LEARY said the costs did remain the same if they were paying for the costs; MR. WORLEY noted that they were still paying rent for the office space; MS. LEARY noted that were still using the phones.

MR. BRETZ said that for the next meeting, he would like to discuss delinquent accounts and requested that it be a standard item on the agenda going forward.

C. Requests/Follow-Ups

MR. JOHNSON stated he would develop a couple questions regarding cost allocation that could be used as the basis for a brief presentation.

MR. HIPPLER said that for the next meeting he would like to see follow-up on the material weakness that was identified in the audit and how that could be rectified.

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

XIII. PUBLIC/MEMBER COMMENTS - None.

XIV. ADJOURNMENT

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

The meeting was adjourned at 10:20 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.