

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

**Videoconference**

**MINUTES OF**  
**March 16, 2022**

**Wednesday, March 16, 2022**

**ATTENDANCE**

**Committee Present:** Bob Williams, *Acting Chair*  
Lorne Bretz  
Allen Hippler  
Donald Krohn

**Committee Absent:**  
Michael Williams, Chair

**ARM Board Trustees Present:**  
Dennis Moen  
Sandra Ryan

**IAC Members Present:**  
Dr. William Jennings

**Department of Revenue Staff Present:**  
Zachary Hanna, Chief Investment Officer  
Pamela Leary, Director, Treasury Division  
Rosa Sanchez, Compliance Officer  
Scott Jones, Head of Investment Operations, Performance & Analytics  
Ryan Kauzlarich, Assistant Comptroller  
James McKnight, State Investment Officer  
Hunter Romberg, Investment Data Analyst  
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/ Chief Pension Officer, Division of Retirement and Benefits  
Kevin Worley, Chief Financial Officer, Division of Retirement and Benefits

Roberto Aceveda, Counseling and Education Manager  
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

**I. CALL TO ORDER**

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

**II. ROLL CALL**

MR. BRETZ, MR. HIPPLER, MR. KROHN, MR. CHAIR WILLIAMS, were present at roll call.

**III. PUBLIC MEETING NOTICE**

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

**IV. DESIGNATION OF CHAIR**

CHAIR WILLIAMS announced that there was a chair position open. He said that he had spoken with MR. MIKE WILLIAMS, who was willing to chair the audit committee, but unable to attend today's meeting. He said that unless there was opposition to the designation, he would appoint MIKE WILLIAMS as chair and in his stead, chair the meeting.. Hearing no opposition, MR. M. WILLIAMS was appointed as chair.

**V. A. APPROVAL OF AGENDA**

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

**B. APPROVAL OF MINUTES: December 1, 2021**

MR. HIPPLER moved to approve the minutes of the December 1, 2021, meeting. MR. KROHN seconded the motion. The minutes were approved without objection.

**C. APPROVAL OF MINUTES: January 13, 2022**

MR. MOEN moved to approve the minutes of the January 13, 2021, meeting. MR. KROHN seconded the motion. The minutes were approved without objection.

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

**VII. REPORTS**

**A. Employer Audits**

MR. WORLEY invited MS. HELMICK to speak.

MS. HELMICK stated that the report was the third quarter state fiscal year 2022 report. She explained their unit audits for PERS and TRS compliance and that they audit the employers in their political subdivisions which count for over 700 million of PERS and TRS contributions annually. She said she had traveled to Fairbanks in December for an audit trip which had been approved for state fiscal year 2022 and was able to complete three audits.

MS. HELMICK noted that she had been seeing systematic issues with audits for calendar year 2021 and half of fiscal year 2022 which involved police officers and municipal correction officers not being certified in time to qualify for their PERS enrollment. She noted the concern was regarding the time it takes to get through certification and get certified by the Alaska Police Standards Council. She suggested a special audit on that for employers who participate in the PERS peace officer classification.

MS. HELMICK also noted a large issue of ineligible compensation that had been reported with one employer. She said it was related to LWOP (leave without pay) and was discovered by another person in their division, the employer's employer counselor. She noted that they play a large part in the audits as well.

MS. HELMICK commented that she serves as the state Social Security administrator and had certified the vote held for the Housing Authority in Bethel. She said they had six members who chose Social Security enrollment and said that all future members of that retirement system would be enrolled in Social Security.

#### **B. Report on Delinquent/Late Filing Employers**

MR. WORLEY said they had less than three employers that were PERS employers as of February 25<sup>th</sup>. He noted that when they find those situations, their payroll staff works with the payroll contacts for that employer to find out if they are going to file a report. He said the late filings tend to be from smaller size employers and that typically there are staffing issues. He noted that one employer reported their payroll staff all had COVID which led to the late reporting.

MR. WORLEY said they also follow-up by reaching out to the employer and if a couple of months pass, they then reach out to either the business officer or the finance officer of that employer. He reiterated that it happens more with smaller employers than medium to larger employers.

MR. BRETZ asked if reporting included contributions and were there more that were behind on contributions; MR. WORLEY said it was for the regular payroll report. He noted that by statute, reports should be received 15 days after the paychecks were issued; MR. BRETZ asked if there was a greater list for contributions; MR. WORLEY said there was not; MR. BRETZ commented that it was an improvement; MR. WORLEY confirmed it was and added that there was a separate report for salary employees and that information would be added to this report for the June meeting.

CHAIR WILLIAMS noted that MR. WORLEY had said there were three PERS employers that were delinquent in reporting and no TRS, but two of the delinquent PERS employers were school districts which were predominantly TRS and asked if there was a reason behind that; MR. WORLEY said for school districts, that TRS was the bigger pool for employees, but noted one of their questions was

why they were not getting the PERS, but receiving the TRS reports, and checks were being issued.

### **C. Material Weakness on Forward-Looking Actuarial Assumptions**

MR. WORLEY noted that this report was related to the 2021 audit report provided to the Audit Committee by KPMG regarding the forward-looking assumptions – GASB 67 and 74. He said that in a discussion with KPMG’s internal actuary who was going through reports for GASB reporting for net pension liability for the National Guard, they determined that the rate of return used was much higher than what the asset allocation for the National Guard provided, resulting in a revision to the financial reporting of that pension.

MR. WORLEY said that in his discussion with KPMG, he was informed that he should discuss the forward-looking assumptions to make sure they were still pertinent going forward. He said they had set in place with Buck for the next time they work on the GASB 67 and 74 reports, they have a discussion and note when they meet with KPMG’s internal actuary.

CHAIR WILLIAMS asked for confirmation that it wasn’t that the assumptions were off but that there was not a check in place to see if those assumptions needed adjusting; MR. WORLEY said that was correct.

### **D. Compliance Report and Update**

MS. SANCHEZ introduced herself as the Investment Compliance Officer for the ARMB and that she would be providing the annual update of the investment compliance program for 2021. She explained their daily process. She said they download position reports at State Street which is the custodian for every security held in the ARM Board and then upload those reports to Bloomberg. Once in Bloomberg, they run a series of compliance tests which correspond to the adopted ARM Board resolutions in place. She said they also have a series of photometric stationary reports they download each morning into Excel to form a list for compliance checks. She noted that the process allows them to check every ARM Board rule twice to ensure that the rules work properly and that they are not missing any potential issues.

MS. SANCHEZ said they also complete a series of daily check to ensure all daily trades, repos, internal transfers are completed correctly. She noted that they perform a position reconciliation between the custodian and Bloomberg to capture all positions on a monthly basis. They then run true-up journal entries in Bloomberg to make both portfolios match when necessary. She said that if they find anomalies, they inform the internal portfolio staff so they could make necessary journals on their side. She noted that since implementation of the tests, the numbers of errors have decreased.

MS. SANCHEZ explained the yearly breakdown of the commission recapture. She said the program was designed to give managers a rebate on trade commissions, but due to the emphasis to keep commissions at execution-only levels, only one manager, PineBridge is actively participating. She noted that the slight increase in 2021 was likely a function of increased trade volume from 2020.

MS. SANCHEZ said that annually they collect the proxy votes for every ARM Board manager with a statement included that all votes are in the best interest of the ARM Board.

CHAIR WILLIAMS asked if she would give a description of what a Bloomberg violation was. MR. McKNIGHT explained that it was MacKay Shields which had been off books for a while, but there were still a few securities in it, and it shows up as an error every month. CHAIR WILLIAMS, noting the commission rebates dropping from 600,000 in 2008 to 16,400, said that there had been changes made to the organizations they were investing with and asked if it was accurate to say that would be the reason behind the difference in numbers, MR. McKNIGHT said they had concentrated on lowering the commission as a conscious decision.

**E. Cost Allocation**

MS. LEARY explained that in December there was a presentation from Maximus about cost allocation and the work they perform for each of their divisions and at that meeting former trustee, Rob Johnson wanted more information and put together the list of questions and forwarded it to her. She commented that there were many, many layers of complexity to cost allocation and that the responses to Mr. Johnson's questions could be found on pages 30 through 33 of the committee packet.

**VIII. REVIEW COMMITTEE CHARTER**

CHAIR WILLIAMS stated that it was time to review the committee charter and asked if there were any comments. There were none.

**IX. FUTURE MEETINGS**

- A. **Calendar Review** – MS. JONES stated that it was customary to present the draft calendar of the upcoming year at the March meetings and that the 2023 draft calendar was included in the packet for the committee's review and comment.
- B. **Agenda Items** - None
- C. **Requests/Follow-Ups** - None

**X OTHER MATTERS TO PROPERLY COME BEFORE THE COMMITTEE** - None

**XI. ADJOURNMENT**

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

The meeting was adjourned at 9:27 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.