

**ALASKA RETIREMENT MANAGEMENT BOARD
AUDIT COMMITTEE MEETING
HYBRID/TEAMS**

**June 14, 2023
9:00 a.m.**

**Originating at:
Robert B. Atwood Building
550 West 7th Avenue, Rooms 102/104
Anchorage, Alaska 99501**

Trustees Present:

Michael Williams, Chair
Donald Krohn

Bob Williams
Lorne Bretz

Other Trustees Present:

Adam Crum

Sandra Ryan

Department of Revenue Staff Present:

Zach Hanna, Chief Investment Officer
Scott Jones, Head of Investment Operations,
Performance & Analytics

Pamela Leary, Director, Treasury Division
Hunter Romberg, Senior Compliance
Officer

Stephanie Pham, State Investment Officer
Rose Sanchez, Assistant Compliance Officer
Benjamin Garrett, State Investment Officer
Robyn Mesdag, State Investment Officer
Grant Ficek, Business Analyst

Ryan Kauzlarich, Assistant Comptroller
Mark Moon, State Investment Officer
Kevin Elliott, State Investment Officer
Leighan Gonzales, Executive Assistant
Alysia Jones, Board Liaison

Chris Madsen, Administrative Operations Manager

Robert Vicario, Administrative Assistant II

Department of Administration, Division of Retirement & Benefits Staff Present:

Ajay Desai, Director, DRB
Mindy Voigt, Assistant Chief Pension Officer
Nimeri Denis, Audit & Review Analyst
Roberto Aceveda, Counseling & Education Manager

Kevin Worley, Chief Financial Officer
Brandon Roomsburg, Retirement &
Benefits Specialist

Department of Administration Staff Present:

Dave Donley, Deputy Commissioner

Department of Law Staff Present:

Ben Hofmeister, Assistant Attorney General

Investment Advisory Council Present:

Dr. William W. Jennings

Ruth Traylor

Public:

Randall Burns, RPEA

Guests/Presenters:

Elizabeth Stuart, Audit Manager, KPMG

Melissa Beedle, Audit Partner, KPMG

PROCEEDINGS

CALL TO ORDER

CHAIR WILLIAMS called the Audit Committee to order and asked for a roll call.

MS. JONES called the roll, and noted that the members of the committee were present.

PUBLIC MEETING NOTICE

CHAIR WILLIAMS asked to confirm that the public meeting notice was met.

MS. JONES replied, yes, it had.

APPROVAL OF THE AGENDA AND MINUTES

CHAIR WILLIAMS asked for any additions or changes to the agenda that was presented. He asked for any objections to moving forward with the agenda. There being no objections, he moved to the approval of the minutes of the March 15, 2023, meeting. He asked for any corrections or questions. There being none, he asked for a motion.

MOTION: A motion to accept the minutes of March 15, 2023, was made by TRUSTEE KROHN; seconded by TRUSTEE BOB WILLIAMS.

There being no objections, the MOTION was APPROVED.

PUBLIC/MEMBER PARTICIPATION, COMMUNICATIONS AND APPEARANCES

CHAIR WILLIAMS continued to the public comment period and asked if there was anyone online or in the room who wished to address the Audit Committee. There being no one wishing to make public comments, he moved on to the reports.

REPORTS

DISCUSSION OF AUDIT TIMELINE

MR. KAUZLARICH explained that, for Treasury's timeline, they anticipated closing the books August 31st. That would allow time to get in as many alternative amounts for June 30th as possible before entering the alternative adjustment. He continued that the UAD, unadjusted audit difference, would be calculated by the end of September. He added that was all he had for the timeline, and recognized Kevin Worley for his presentation.

CFO WORLEY went over the Division's audit timeline. The fiscal year ends June 30, 2023, and the audit process begins with KPMG shortly thereafter. They had started updating some of the process memos and any changes that may have occurred during the course of the year. The deadline that they are shooting for is October 15th. He added that they proposed an Audit Committee meeting to go over the Division of Retirement Benefits' audit, the PERS, TRS, JRS, National Guard, SBS, and deferred comp, on October 9th. The draft financials will be sent by October 2nd for the opportunity to review. He continued that October 13th is the deadline to submit to the Division of Finance within the Department of Administration for the State's annual comprehensive financial report. He added that they work with Buck very extensively in September, getting all the GASB information required within the financial statements.

CHAIR WILLIAMS asked for any questions. There being none, he moved to the Audit Section Report.

AUDIT SECTION REPORT

CFO WORLEY began the Division's presentation with the audit unit report. He was sad to report that Evgenia Golofeeva accepted a much higher paying position within private industry, and left State service almost exactly two months after she had started working with the Division. During those two months, she got a lot done, and answered a lot of questions about Social Security, working with the Social Security folks on the Federal level. He added that they were in the process of recruiting for her position. He also stated that Brandon Roomsburg was hired in the other audit position and brings a great wealth of knowledge from the employer side, having worked with employers as a regional counselor. He added that due to travel restrictions, all of the audits were done via a desk audit. There will be a State Social Security administrator meeting in September right after the September ARM Board. He stated that Attendance there is very important; especially with the amount of information requested from the Legislature the last few years regarding Social Security and things being looked at by the Defined Contribution Plan Committee.

CHAIR WILLIAMS asked for any questions. There being none, he moved to the Delinquent Reports.

REPORT ON DELINQUENT/LATE FILING EMPLOYERS

CFO WORLEY stated that the report in the packet was as of May 22nd, and he did have an update as of Monday this week. The PERS employers continued to be delinquent through this past Monday were: The City of Nenana; City of Saxman; City of King Cove; Hydaburg School District; and the City of Fort Yukon. In terms of TRS employers, three of the four listed had caught up, the outstanding one was Hydaburg City School District. He added that they reached out to Hydaburg and had a few meetings. They are currently working with one of the payroll section managers in getting caught up. They had a lot of capital project issues within the school district and used the money for that. He had explained that the requirement was to submit the money, and they understood the consequences. He did have another meeting scheduled with Department of Education School Finance. There was a change in leadership since the first contact and there was a new school finance administrator. He stated that they did have statutory authority to garnish State funding to employers and had used it once before with some repercussion from some parties. They have been reluctant to do that but will go after school funding if they have to.

CHAIR WILLIAMS stated surprise that this list continues yearly and asked for the reasoning for being late.

CFO WORLEY replied that if they are 16 days late, they are on the report. A lot of the times they are caught up in a day or two, or it could be an issue with the ACH transfer they sent. He commented on Noorvik and the nonpayment from 2009. They basically want to terminate because they just do not have the money. That has been referenced as a cannot afford to leave PERS and cannot afford to stay in PERS. It is just very difficult on the smaller employers.

COMMITTEE REQUESTS: AREAS OF INTEREST/REVIEW

CHAIR WILLIAMS asked for any questions on delinquent reports. There being none, he moved

to the next agenda item which was any requests from members of the committee for future areas of interest or review. He suggested revisiting this at the end of the meeting and continued to legal matters.

REVIEW OF LEGAL MATTER

CHAIR WILLIAMS recognized Assistant Attorney General Ben Hofmeister, and asked if there were any legal matters to bring up with the Board.

MR. HOFMEISTER stated that the presentation was done every year as part of the Audit Committee's standing policies. He continued that there were three distinct areas regarding financial statements, the ARM Board's compliance with applicable laws and regulations, and any inquiries received from regulators or governmental agencies. There are no legal matters impacting any three of those areas, with the qualification that it was audit season and one of his tasks is to report on any legal matters impacting the ARM Board, Department of Revenue or Division of Retirement & Benefits. He moved to the impact of the Metcalfe decision. He explained that the Supreme Court did not give the Division of Retirement & Benefits a game plan on how to implement that. It was not an easy process, and there have been a lot of questions. One of the things he advised this board was that he believed that it would not have a large impact. He continued that, in reading the decision, there are potentially 78,000 people that are impacted that is based on circumstances and what people will want to do in terms of getting back into the defined benefits system. He added that it would continue to be something the Division will grapple with for some time.

CHAIR WILLIAMS asked for any questions. There being none, he moved to the Statement of Controls on a Service Organization Report.

DEPARTMENT OF REVENUE – TREASURY DIVISION SOC1 – REPORTING ON CONTROLS AT A SERVICE ORGANIZATION

MR. KAUZLARICH stated that due to the timing of the issuance of one of the audits, he was unable to include it in the packets. It will be included in the digital packet after the meeting. He stated that twice annually State Street submits to an audit of its global fund accounting and custody system and its information technology general controls. Those were commonly referred to as the SOC1 or service organizational control reports. State Street's auditor issued an unmodified opinion for both their September 2022 and March 2023 SOC1 reports. The unmodified opinions state that State Street's description presents fairly in all material respects. State Street's control systems and the controls related to the control objectives are suitably designed to provide reasonable assurance that the control objectives will be achieved if the controls operated effectively throughout the period, and if subservice organization and user entities apply their complimentary controls assumed in the design of State Street's controls throughout the periods. State Street had no material control deviations during either period. Additionally, NRS also submitted to an audit of its service organization controls and issued an unmodified opinion for the calendar year of 2022 with no relevant deviations in its testing.

CHAIR WILLIAMS asked for any questions. There being none, he moved to the accounting/financial personnel structure.

ACCOUNTING/FINANCIAL PERSONNEL STRUCTURE

DIRECTOR LEARY commented on the SOC1 report, noting that State Street is their custodian and NRS is the plan accountant. She continued that it is a large report that gets summarized down into a one-page document for ease of discussion. She then moved the organization chart showed staffing at 40 of 45, meaning there were currently five vacancies. She noted that they had six hires since last year but that they also had a number of people retire. She added that Accountant V Sam Hobbs is leaving and going to a private industry for more money. Accountant Vs are a concern, with limited resources within the state. The recruitment was out with the hope of filling that position. She noted that the middle office made a lot of improvements supporting the portfolio staff and the accounting staff in the work that uses technology. She continued that she felt that they had progressed very quickly making technology a focus while still supporting the staff they have.

CHAIR WILLIAMS thanked Director Leary and moved to Director Desai for the Retirement & Benefits.

DOA – DIVISION OF RETIREMENT & BENEFITS PERSONNEL STRUCTURE

DIRECTOR DESAI talked about the Division, the organization structure, and the major areas within the Division, beginning with member benefits; then health fund administration; operations; and finance. Under member benefits, there has been a primary position for a chief financial officer open since January. Under the health plan, there is also a chief health officer position vacant since last November. He explained that the operation is managed by himself and Kris Humbert, who supports him with the member contact centers, communications, and IT liaisons. The last section, finance, is managed by Chief Financial Officer Kevin Worley. He stated there were over 113 employees in the Division, with about a 16 percent vacancy rate, or 21 people. They also have a high turnover that causes significant stress to the existing employees having to train the new employees. It also has a huge impact on the services. They try to keep up as promised. He noted that the majority of DRB currently manages the defined benefits of the plans, whether PERS or TRS. They process the applications, retirement benefits, current disability benefits and health benefits, as well as retiree Alaska tier plans. He talked about the IT modernizations that were about to go live in 2024 and would provide more details in the full board meeting.

CHAIR WILLIAMS stated that the vacancy challenge was statewide, and he continued to KPMG for the independent auditor's audit plan.

REVIEW INDEPENDENT AUDITOR'S AUDIT PLAN

MS. BEEDLE stated that she is the audit manager on the engagement, and she lives in Juneau. She had with her Beth Stuart, the audit partner on the engagement, who is based in Anchorage. She continued that they were there to talk about the audit plan for the year. There had been no changes from the original contract or the scope of the audit from the past. The plan is to issue audit opinions over each of the reports listed. She reminded all that the audits included considering internal controls over financial reporting, but that they do not issue an opinion on internal controls over financial reporting. She moved to the summary of the required communications and explained that the auditing standards had a list of things that were required to present to the Audit Committee every year. The audit will be performed in accordance with auditing standards generally accepted in the United States. She continued that the audit

incorporates a level of materiality and described some of the judgments. CHAIR WILLIAMS asked if the materiality was subject to or verified through a peer review process.

MS. STUART replied that if the engagement was selected for peer review or other quality review, the materiality number would be one of the first things looked at.

MS. BEEDLE moved into the audit timeline and stated that it will start around fiscal year-end; the June/July timeframe. It is a process that spans the whole year. She talked about risk assessment, and that part of the audit will be going through each of the accounts on the trial balances, and we will do a risk assessment over all of the different areas. She moved to the areas identified as having higher levels of risk, specifically related to management override controls. She noted that significant audit matters that are considered as part of the risk assessment related to more complex areas of the audit, and that will be the valuations of the alternative investments. The valuations are more complex for these investments; the valuation of the net pension liabilities, the net OPEB liabilities because of the estimation, and the actuarial involvement are considered higher risk areas. Time is also spent looking at contributions, distributions, and other areas of the audit. This was where the more intense efforts are focused. As part of the risk assessment, the use of others in the audit is considered. She reminded all that independence is a shared responsibility, and management plays a part, as does the Audit Committee. She went through a summary of responsibilities and stated that they were responsible for forming and expressing an opinion on the financial statements. This opinion does not relieve management or the Audit Committee of their responsibilities to oversee that reporting process.

CHAIR WILLIAMS asked for questions. There being none, he looked forward to working with KPMG in more detail as the year progresses.

COMMITTEE PERFORMANCE – SELF ASSESSMENT

CHAIR WILLIAMS noted that the Audit Committee tended to follow a tried-and-true process. There are certain things at certain times of the year that need to be done in order to meet the reporting deadlines. He asked if there was anything that the committee members would like to see done a little differently, or what might improve the process. He stated that he thought that the audit machine was fine-tuned and running smoothly at the moment. He asked if there was anything in the committee charter that folks would like to see updated, to please let him know.

FUTURE MEETINGS

CHAIR WILLIAMS moved on to the review of the calendar in terms of future timelines. He talked about the September committee meetings, as well as the October meeting to review the financial statements. He circled back and asked for any future request items or anything that committee members wanted to see brought before the committee.

TRUSTEE BOB WILLIAMS stated that he would be interested in the delinquent accounts and that ceiling floor. He continued that he would be interested in seeing the sum that had accrued that was owed by each of those districts and any additional context, such as whether they had not paid anything; they were fighting it; they were trying to get out of PERS; or if they were making payments. He asked for something that would provide a bit more context on the total amount or any idea of what the possible long-term trajectory could be.

CHAIR WILLIAMS saw that notes were taken and looked forward to an update the next time around. He asked for any other items to come before the committee.

CFO WORLEY asked if October 9th would be okay for the preliminary review for the committee.

CHAIR WILLIAMS penciled it in and moved to the public comment/member comment period and asked if anyone wished to make comments to the Audit Committee. He asked if there was anyone online that wished to address the committee. He heard no one online or in the room and asked for a motion to adjourn.

MOTION: A motion to adjourn the Audit Committee meeting was made by TRUSTEE KROHN; seconded by TRUSTEE BOB WILLIAMS.

There being no objection, the MOTION was APPROVED.

(The Audit Committee meeting adjourned at 9:59 a.m.)