

MINUTES OF THE
NEW MEXICO EDUCATIONAL RETIREMENT BOARD
AUDIT COMMITTEE

November 17, 2016

1. a. Roll Call/Ascertain Quorum

A meeting of the New Mexico Educational Retirement Board Audit Committee was called to order on this date at 3:15 p.m. in the Educational Retirement Board Conference Room, 6201 Uptown Boulevard, N.E., Ste. 203, Albuquerque, New Mexico. A quorum was present.

Members Present:

Ms. Mary Lou Cameron, Chair
Mr. Tim Eichenberg
Mr. Russell Goff

Members Excused:

None.

Staff Present:

Ms. Jan Goodwin, Executive Director
Ms. Dianne Rossbach, CFO

Others Present:

Mr. Jason Ostroski, CliftonLarsonAllen

b. Approval of Agenda

Mr. Goff moved approval of the agenda, as published. Mr. Eichenberg seconded the motion, which passed unanimously by voice vote.

c. Approval of October 20 Audit Committee meeting minutes

Mr. Goff moved approval of the minutes of the October 20, 2016 meeting, as submitted. Mr. Eichenberg seconded the motion. The motion then passed by voice vote, with Mr. Eichenberg in abstention.

d. Introduction of Guests

Ms. Rossbach introduced Jason Ostroski of CliftonLarsonAllen. She noted that this is CLA's first year audit for the NMERB, and that the process has been very smooth.

2. PRESENTATION AND DISCUSSION OF THE FY16 AUDIT: CLIFTONLARSONALLEN

Mr. Ostroski presented highlights from the FY16 audit.

-- CLA expects to issue an unmodified "clean" opinion on the financial statements as well as the schedule of revenues and expenses. No material weaknesses were identified.

-- One significant deficiency was identified in investment accounting. The way it was structured resulted in a misstatement that had to be booked as an audit adjustment. The processes are being adjusted and management is taking steps to correct how investments will be reconciled between the custodial bank and what is reported through the general ledger to the financial statements going forward.

-- There were three compliance and other matters. Two "other matters" were best practices issues rather than control weaknesses: 1) on accuracy and completeness of census data (data analytics); 2) the need to continue to pursue a disaster recovery plan, formalize it, and then test it; and 3) cash receipts not recorded or deposited in a timely manner, in this instance because of holidays and a staff member being on leave.

With respect to #3, Ms. Goodwin explained that the root cause of the delay was the purchase of service credit, which has to agree to the penny with what is in IRIS; if it doesn't, it cannot be deposited.

-- There was one significant accounting policy this year, when GASB issued a standard on fair value of investments (GASB 72).

With respect to GASB 72, Mr. Ostroski commented that pension funds around the country (including NMERB) have always done a good job of showing what asset classes they're invested in, and there has been good disclosure on how the fair value of investments has been determined. He said this "enhancement" seems to be directed at government agencies that do this type of accounting.

-- There was one audit adjustment, which was related to the difference between the custodial bank and what was reported in the general ledger. This was a \$72 million adjustment.

-- There were no passed audit adjustments.

-- Management was very cooperative and professional during audit process. No disagreements with management.

Mr. Ostroski reviewed the financials.

Ms. Rossbach discussed a potential change that the State Auditor's Office is proposing, which is to shorten the cycle by 30 days, requiring submission by November 1 rather than December 1 in 2017. She asked Mr. Ostroski how that would affect CLA's audit timeline.

Mr. Ostroski responded that CLA supports management's position on this. He said the June 30 valuations tend to come in later; so to capture that fully, leaving the books open until early October is prudent, so that is certainly one consideration for getting the information updated while still being able to issue a final report on November 1. He added that getting the actuarial numbers and filtering those through the statements would probably put a strain on the process in terms of bumping it back 30 days, but CLA was open to working on a response to that.

Ms. Rossbach said she would work on a protest to this proposal, adding that support from the Audit Committee would be helpful.

Mr. Eichenberg expressed concern about the Audit Committee accepting the audit report rather than the board itself. Ms. Goodwin explained that the State Auditor's deadline is December 1, in advance of the next board meeting, and so the responsibility for acceptance has been delegated to the committee. The full board will review the audit as an informational item.

Mr. Goff moved to accept the FY 2016 audit report, as presented, and to forward it to the State Auditor's Office. Mr. Eichenberg seconded the motion, which passed unanimously by voice vote.

ADJOURN

Its business completed, the Audit Committee adjourned the meeting at 4:00 p.m.

Accepted by:


Ms. Mary Lou Cameron, Chairwoman