

**Minutes of the Audit, Risk and Compliance Committee Meeting, Amended
Tuesday, June 9, 2020**

Attendees:

Board and Audit, Risk and Compliance Committee:

Treasurer Joseph Torsella, Committee Chair
Senator John DiSanto
Lloyd Ebright, Designee for Treasurer Torsella
Charles Erdman, Designee for Senator DiSanto
Dan Ocko, Designee for Representative Frankel
Mary A. Soderberg
Gregory Thall

Other Board Members:

James Bloom, Designee for Acting Secretary Vague
Alan Flannigan, Designee for Secretary Vague
Gregory Jordan

SERS Staff:

Rose Agnew
Randy Albright
Stephen Balucha
Don Bell
Michele Crow
Thomas Derr
Randy Gilson
Phil Greenberg
Pamela Hile
Christopher Houston
Alicia James
Kevin Kiehl
Dan Krautheim
Karen Lynn
N. Joseph Marcucci
Ryan McCoy
Sara McSurdy

Matthew Meads
James Nolan
Terri Sanchez
Jay Stroup
Joseph Torta

Presenters/SERS Independent Auditors:

Eric Forkner, Partner, KPMG LLP
Lindsey Hoff, Manager, KPMG, LLP

1. Call to Order and Election of Committee Chair

At 11:02 a.m., Committee Chair Treasurer Torsella called the meeting to order.

2. Welcome and Introductions - None

3. Approval of Minutes

Action 1: Minutes of Committee Meeting – February 26, 2020

Committee Chair Torsella presented the minutes provided to the Committee.

Motion:

By motion that was moved by Committee Chair Torsella and approved unanimously by Committee members, it was;

RESOLVED: That this Committee approves the meeting minutes from the February 26, 2020, meeting.

4. Old Business – None

5. Special Presentations

Action 1: Results of the 2019 Independent Audit

Eric Forkner, Partner, and Lindsey Hoff, Manager, from KPMG LLP, SERS independent auditors, were introduced. Mr. Forkner presented the Independent Auditor's Required Communications letter to the Committee and reported that no material errors or omissions were found during the audit. Mr. Forkner complimented SERS staff under the unusual conditions of this year's audit due to the pandemic and had no formal recommendations for efficiencies and/or effectiveness.

KPMG then reviewed the results of SERS and the Deferred Compensation Plan's financial statements for years ended December 31, 2019 and 2018. Mr. Forkner reported that 86% of the December 31, 2019 defined benefit plan's investment funds were confirmed through sample

investment testing for this year's audit. A total of 27% of the defined benefit plan's accounts managed by Fairview were confirmed.

Motion:

By motion that was moved by Committee Chair Torsella and approved unanimously by Committee members, it was;

RESOLVED: That this Committee recommends to the State Employees' Retirement Board to accept the audited financial statements of the Commonwealth of Pennsylvania State Employees' Retirement System, and the Pennsylvania State Employees' Retirement System Deferred Compensation Plan for years ended December 31, 2019 and 2018, as presented by our independent auditors, KPMG LLP.

6. New Business**Action 1: Appointment of Assistant Chair**

Committee Chair Torsella appointed Senator John DiSanto for the position of Assistant Chair. The Committee unanimously consented to the appointment and Senator DiSanto accepted the nomination.

Action 2 – Internal Audit Update

Karen Lynn led a discussion on projects recently completed by the Internal Audit Division as well as project currently in process. These included the following:

- Recently completed projects include data validation of the 2020 Member Statements and the five-year files for the 2015-2019 Actuarial Study.
- Coordination of the 2019 independent audit will be completed later this month with KPMG providing their opinion on the GASB 68 pension report and the CAFR.
- The 2020 agency risk assessment and internal control testing of SERS recently began. The results of this testing will be reviewed with the committee at its September meeting. Internal controls impacted by transitioning to a remote work environment will be a focus.
- Committee members were advised of the need for an RFP for independent auditor services for years 2021-2025. An RFP document and Statement of Work have been drafted and it is anticipated a final selection will be recommended to the Board at the April 2021 meeting.

Action 2 – Follow-up: The committee asked the Internal Audit Director that the following information be provided:

- The Committee Chair requested that in the upcoming 2020 internal control testing effort, Investment Office travel be reviewed.
- The Committee requested a memo be issued to the members following the meeting that will request a response as to their voluntary participation on the independent auditor RFP evaluation committee. This will allow the members to review the RFP process documentation provided as well as review their schedules for availability.

Action 3 – Compliance Officer Update

Chris Houston led a discussion on the current status of several projects he is currently working on. These included the following:

- The Committee received a status update on the activities of the Acting Chief Compliance Officer for the quarter ending March 31, 2020.
- An updated draft of the Insider and Personal Trading Policy was reviewed with the Committee.
- The Committee was presented with a draft of the Compliance Program Charter.

Action 3 – Follow-up: The committee asked the Acting Chief Compliance Officer that the following information be provided:

- In connection with the Insider and Personal Trading Policy discussion, Ms. Soderberg requested a review of best practices be performed on other state pension funds disclosure practices and whether their boards disclose their investment holdings. Currently, not all of SERS board members are required to disclose this information, and those that do are only required to disclose limited information.
- The Committee Chair requested enhanced clarity of the Compliance Charter, Section VII A, specific to the authority to hire and terminate the Chief Compliance Officer position. The current text may be interpreted differently when the position is held by an attorney versus a non-attorney.
- The Committee requested that staff issue a request to Committee members following the meeting that will request any questions they may have on the Compliance Program Charter.
- Board member James Bloom requested that a whistle-blower policy be considered to be added into the Board Governance Policy Manual.

7. Executive Session

At 12:14 p.m., the Committee went into Executive Session to review and discuss Committee business, which, if conducted in public, would violate a lawful privilege or lead to the disclosure of information that is confidential or protected by law. Topics covered in executive session included:

- A review of due diligence performed on investments approved by the Board in February and April 2020.
- A discussion on the Acting Chief Compliance Officer position.

8. Committee Meeting Resumes

At 12:34 p.m., the Committee meeting resumed in public session.

9. Committee Comments/Concerns/Questions – No additional items noted

10. Motion to Adjourn

Action 1: Adjournment

Motion:

By motion that was moved by Committee Chair Torsella and approved unanimously by Committee members, it was;

RESOLVED: That this meeting be adjourned at 12:35 p.m.

Respectfully submitted,

Karen A. Lynn

Karen A. Lynn, CPA
Internal Audit Director