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State Board of Finance

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MEMORANDUM

July 15, 2025

To: Members of the State Board of Finance

From: Paul Cassidy, Member, State Board of Finance
Joseph Lujan, Member, State Board of Finance
Ashley Leach, Director, State Board of Finance

Subject: Board of Finance Audit Subcommittee Activity and Report for FY24

Pursuant to NMSA 12-6-15, the Board of Finance (SBOF) shall review the audits of the Educational Retirement Board (ERB), the Office of the State Treasurer (STO), the Public Employees Retirement Association (PERA), and the State Investment Council (SIC). The Board of Finance established a subcommittee which annually is tasked with reviewing the audits listed under the statute.

HISTORY

- The "STO Audit Subcommittee" was created in 2006 by the Audit Act to review the State Treasurer's audit following indictments of previous State Treasurers.
- The subcommittee also reviewed the selection of an auditor and ensured the audit process was followed.
- The Audit Act was amended in 2019, adding PERA, ERB, and SIC audits to be reviewed in addition to STO.
- The Audit Act requires that audits be provided to the Board of Finance for review within six months of the date the audit is due to the Office of the State Auditor (this is November 15 for most entities but can vary).
- At its February 18, 2020, regular Board of Finance meeting, it was determined that the "STO Audit Subcommittee" be renamed to the "Audit Subcommittee" and that the subcommittee prepare a report with staff assistance to identify significant audit findings and the process for selecting the independent auditor for PERA, ERB, SIC, and STO. The purpose is to ensure the process for selecting an independent auditor was followed and to report any other items the subcommittee identifies upon review of the audit as worthy of disclosure.

FUTURE CONSIDERATION

Consider amending 12-6-15 NMSA to remove this required review by the Board of Finance as it is a duplicative process. An alternative might be to require or request the State Auditor and the State Comptroller to brief the Board of Finance annually on all audits.

AUDIT REVIEWS

The following is the audit review summary.

OFFICE OF THE STATE TREASURER (STO)

- The FY 2024 STO Financial Statements were audited by CliftonLarsonAllen, LLP (CLA), Albuquerque, NM. This is the second year of a four-year audit contract. CLA was selected as a result of an RFP process in 2024. CLA was on the State Auditor's approved list during the time the audits were conducted.
- The financial statements for the State Treasurer's Governmental Funds comprise the General Fund, General Obligation Bond Fund, and Severance Tax Bond Fund. The financial statements for Internal and External Investment Pools include the Consolidated Investment Pool, State General Fund Investment Pool (GFIP), and Local Government Investment Pool (LGIP). LGIP is considered an external investment pool, and its fiduciary fund participants are local public bodies and non-component units of the state government. To comply with GASB 84 regarding fiduciary activities, STO reports Local Government Investment Pool (LGIP) participants who are non-component units of the state government in the stand-alone financial statements. The audited financial statements of both Governmental Funds and Investment Pools were submitted to the State Auditor on time.
- STO operated within its approved budget of $4.9 million in FY24, with a positive variance of $298,538, accounting for a net change in fund balances of $474,396. The operating budget was funded with state appropriations of $4.3 million, other financing sources and federal grants of approximately $175,000, and other state funds of $390,000. Any unassigned cash balances remaining at FYE reverted to the State General Fund.
- STO had 22 employees at the end of FY24. 27 positions are funded, and eight positions are unfunded and vacant.
- The investment assets managed by STO comprising the State Governmental Funds exceeded liabilities by $977.1 million, and STO's net position ended at $947.2 million for FY24. The net position accounts for restricted debt service liabilities of $977.1 million, net assets of $945,767, and net liabilities of $30.9 million (primarily from arbitrage liability).,
- The SBOF and STO jointly approve an Investment Policy and review it periodically. The Treasurer reports to the SBOF monthly. The State Treasurer's Investment Council (STIC) comprises five (5) voting members: the State Treasurer, or designee; a member of the Treasurer's staff upon appointment by the Treasurer or designee; the director of the SBOF, or designee; and two members who are participants in the private investment community or have expert knowledge or professional experience in the subject of public finance or public money investing, of which one member is appointed by the State Treasurer and approved by the SBOF and one member is appointed by the SBOF and approved by the State Treasurer. The members of the Council are selected in a manner

consistent with maintaining a separation of responsibilities between the STO investment managers and the members of the Councils.

- As of June 30, 2024, STO managed $18.2 billion in external and internal pools of funds, with $2.7 billion in the LGIP, 4.1 billion in the Consolidated Investment Pool and $11.3 billion in the General Fund Investment Pool. The net change in the balance was approximately -$400,000. STO has an independent investment advisor to advise the Treasurer. STO staff manage all investment activity and execute all trades internally using approved broker dealers. LGIP earnings distributed to beneficiaries totaled $50.7 billion
- **Both audit reports were unmodified. There were no financial statement findings. Two significant deficiencies were noted in the Governmental Funds audit in internal controls over financial reporting.**
    1. The office does not have a policy in place to review the annual arbitrage requirement or post the required liability. The lack of controls in place led to a missed arbitrage liability being recorded at year end. CLA recommends STO work closely with the BOF to make sure the applicable liabilities related to issued debt has been recorded at year end. The management response was the Treasurer has already spoken to the Board of Finance Director to change the process to ensure that STO receives monthly statements from the arbitrage consultant. Once those monthly statements are received, the Chief Financial Officer will ensure that arbitrage estimate is properly recorded. SBOF would note that monthly reports do not exist. Arbitrage reports are produced once a year, shortly after the end of the fiscal year. SBOF has discussed with the arbitrage consultant as to whether reports could be provided prior to the end of the fiscal year.
    2. The Office was not able to close their books in a timely manner in preparation for the annual financial audit. There were numerous journal entries posted after the Office submitted the agency representation letter to DFA, furthermore, the Office did not submit audit requests by the applicable deadlines and extensions. Requested items were submitted between 30 and 45 days late. The letter was submitted timely, but the Office was not prepared to be audited as of the deadline of September 1. The office had turnover in key positions that led to the delay in providing timely audit requests. CLA recommended STO establish a timely close of the fiscal year process to ensure all audit requests can be submitted timely. Management has created a checklist with timelines and responsible parties to prepare for the audit throughout the course of the year.
- **Questions and considerations?**
    - **Was cost of audit increased?**

      The IPA was paid according to the FY24 contract.
    - **Did staff turnover contribute to the deficiencies?**

      Yes. A CFO was hired in October 2024, and STO contracted with DRAF for a traveling CFO to assist with the audit. Previous COF's employment ceased September 2024.
    - **Who is CFO currently?**

      Kristen Dorland.

PUBLIC EMPLOYEE RETIREMENT ASSOCIATION (PERA)

- The FY 2024 PERA Financial Statements were audited by Moss Adams LLP.
- Moss Adams was selected as the result of an RFP process in 2022. This was the third year in which Moss Adams was engaged to complete the audit of PERA. Auditors are selected through an RFP process and are subject to approval by the Department of Finance and Administration and the State Auditor.
- The audit and annual financial report were completed on time on November 26, 2024, and submitted to the State Auditor at that time.
- PERA administers 31 different types of retirement coverage for affiliated employers of the State of New Mexico. The Board of Trustees serves as the trustee for funds controlled by PERA and is authorized to invest the funds. PERA administers the PERA Fund, Judicial Retirement Fund, Magistrate Retirement Fund, Volunteers' Fire Fighter Retirement Fund, and Deferred Compensation Fund (collectively "the Funds"). There were 57,616 active members and 48,303 pensioners and beneficiaries.
- PERA employed over 80 staff during FY24, including 10 investment professionals within its Investment Bureau.
- The administrative expenses for the defined benefit plans for FY 2024 totaled $16.6 million, with $16.4 million expended for the PERA fund and the remainder for the judicial, magistrate, and volunteer fire fighters funds. External investment expenses totaled $69.8 million, and internal investment expenses totaled $2.4 million, for a total of $72.3 million. PERA operated within its final budget of $40.4 million, completing the year with a favorable variance (unexpended budget) of $9.0 million. Net non-budget revenues and expenses totaled $844.9 million, leaving the net position held in trust for the pension benefits at $18.2 billion.
- PERA paid out $1.5 billion in benefit payments in FY24 across the funds, an increase from FY23. Total contributions were $963.7 million, with PERA Fund contributions comprising $950.3 million of that total and the Judicial, Magistrate, and Volunteer Firefighters Fund making up the remaining amount. Employer contributions totaled $528.6 million and employee contributions totaled $422.5 million across the funds.
- Funds under management totaled $17.6 billion, and $18.5 billion including the Deferred Compensation Plan. It was reported that investment activity resulted in a defined benefit funds net investment gain of $1.35 billion, net of investment fees and expenses. This represents a one-year return of 8.66 percent, which exceeds the one-year benchmark return of 7.25 percent. PERA annualized returns outperformed the fund's long-term target of 7.25 percent only in the one-year period. The fund outperformed its policy index in each period except the one-year, where it underperformed its benchmark by 2.9 percentage points.
- Gabriel Roeder Smith & Company (GRS) prepared the actuarial valuation report, which was included in the annual financial report. The PERA Fund reported a 67.2% Funded Ratio and a $8.7 billion Unfunded Actuarial Accrued Liability (UAAL), with an amortization period of 52 years, which is improved from prior reporting periods, including 53 years in FY23. The UAAL increased by $571.6 million, Per the audit report, "Salary increases and assumption changes were the biggest factor in the decrease of the funded status, however, favorable investment experience did offset those losses." The

Judicial Fund had a Funded Ratio of 56.1% and a UAAL of $94.0 million; the Magistrate Fund had a Funded Ratio of 52.4% and a UAAL of $31.1 million; the Volunteer Firefighter Fund had a Funded Ratio of 172.2% and a UAAL of -$36.9 million.

- The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to PERA for its Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2023. This is the 23rd consecutive year that PERA has achieved this award. The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment by PERA employees. The GFOA also awarded PERA an Award for Outstanding Achievement in Popular Annual Financial Reporting for its Popular Annual Financial Report for the fiscal year ended June 30, 2023. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports. This is the 7th consecutive year that PERA has achieved this award. Additionally, the Public Pension Coordinating Council (PPCC) awarded the Public Pension Standards Award for Funding and Administration certificate to PERA for the fiscal year ended June 30, 2024. This award signifies that the PERA complies with the standard benchmarks for public defined benefit systems in the United States. The standards require a high level for the following: comprehensive benefit program, funding adequacy, accepted actuarial and audit practices, investment policy and evaluation, and member communications.
- **The audit report was unmodified. There was one financial statement finding.** During the testing of the judicial retiree benefit payments, the auditor noted two retirees' benefit payments were incorrect out of the nine selected for testing. The auditor stated the cause was insufficient oversight in applying the COLA to eligible retirees and in manual calculation of retirement benefit. The auditor recommended that adequate controls be in place in applying the COLA and over the review of the judicial retirement calculations. PERA provided a management response, which included that it would "review procedures and make any updates as needed" and that "a complete review of the judicial retirement benefits will be completed by the end of 2025."

  No material weaknesses or noncompliance material were identified. No significant deficiencies were noted.
- **Questions and Considerations?**
  - **As we are near the end of FY25, do you have an update on the review of the judicial retirement benefits that was initiated to address the financial statement finding from the FY24 audit?**
    PERA has completed a review of the judicial retirement benefits. Additionally, an internal audit was completed on judicial benefit payments and cost-of-living adjustments.
  - **Are the calculations of benefit payments done manually? If not, is there a system that automatically calculates benefits?**
    For judges who took the bench prior to July 1, 2005 and July 1, 2014, Retirement Department staff manually calculates the monthly judicial benefit utilizing an Excel workbook. The Retirement Information Online (RIO) system is not programed to calculate judicial benefit payments for judges who took the bench prior to July 1, 2005 and July 1, 2014. To further ensure the accuracy of judicial benefit calculations, we have added an additional review step. The

Member Service Bureau Chief and/or the Deputy Director now reviews the judicial benefit amount before a member is placed on payroll.

NEW MEXICO EDUCATIONAL RETIREMENT BOARD (ERB)

- The FY 2024 ERB Financial Statements were audited by Moss Adams LLP, CPAs, Albuquerque, NM. Moss Adams has been the auditor for six years and was selected through an RFP process following approval by DFA and the State Auditor. This is the third year of a potential three-year contract.
- The audit is dated November 21, 2024, and was completed on time. The audit opinion is unmodified. It also addressed internal controls.
- The ERB was established in 1957 as a cost-sharing multiple employer pension plan to provide retirement and disability benefits to certified teachers and other employees of the state's public schools, institutions of higher learning, and state agencies providing educational programs. As of June 30, 2024, plan membership included 62,970 active working members and 55,706 retirees and beneficiaries. Including inactive members, the total membership was 172,680. ERB served 220 educational employers as of FYE 2024, with the majority of employers being charter or public schools. "Over the last ten years, the total number of active plan members has increased 3.2%, while the number of retired members and beneficiaries has increased 26.5%. The ratio of active members to retired members and beneficiaries is 1:13. Other membership categories, inactive non-vested members and inactive vested members, have also increased 28.5% and 41.7%, respectively. Total membership has increased 18.2%."
- ERB employs 91 staff. The investment department includes 16 staff, with 11 investment positions (13 are filled as of the date of this memorandum) and five accounting positions.
- The ERB is self-funded through investment income, combined with educational employer and employee contributions. No General Fund appropriations are required for administrative costs, but ERB does submit a budget appropriation request to the legislature, which must be approved. For FY24, the ERB appropriation budget totaled $32.2 million. ERB operated within its approved budget in FY24, with a budgetary variation (unexpended budget) of $9.4 million, coming primarily from contractual services savings of $9.0 million. Total expenditures for FY24 were $22.8 million, including $11.9 million for personnel services and employee benefits and other expenses. A little under half of expenditures ($10.9 million) were for contractual services. The largest contractual services expenditures were for investment manager expenses, followed by investment consulting and information technology fees. Net non-budget revenues and expenses totaled $1.2 billion, leaving the net position held in trust for the pension benefits at $17.5 billion at FYE. Off-budget expenditures totaled $504.3 million, with nearly all of that in investment management fees. NMERB held $316.3 million in short-term investment accounts (the ERB Pension Trust Account), including $12.3 million in the State General Fund Investment Pool and $303.9 million in State Street Bank.
- Gabriel Roeder Smith & Company (GRS) prepared the actuarial valuation report, which was included in the annual financial report. ERB's 1-year fund balance was $17.0 million, up $1.1 million from FY23, and was $17.3 million when including the cash and short-term investments. ERB's FY24 1-year weighted investment return net of investment expenses was 8.6%, and the 10-year return was reported at 7.4% as of FYE; the fund's long-term return target is 7.00%. The fund underperformed its benchmark policy index by 92 basis points and ranked in the 75th percentile of its peers (public

pension funds with assets of $1 billion or more). Fiscal year contributions were $1.2 million, and increase of 14.2 percent from FY23. The change in contributions primarily came from an increase in employer contributions of 1%. Benefit payments were $1.4 million, an increase of 4.8% from FY23. NMERB attributes the increase in payments to growth in the retiree population. While payments exceeded contributions, investment income contributed to an overall positive net position for the year. ERB performed the best compared with other large New Mexico investment funds, with ERB coming in as among the best performing funds in the quarter period and near the 10th percentile for the three-, five-, and 10-year periods. T

- The Net Pension Liability (NPL) was $8.79 billion, a 1.2% increase from the NPL for FY23. The net position as a percentage of total pension liability was 66.6%, and the net position as a percentage of covered payroll was 220.1%. The funded ratio was 64.8% for FY24, up from 62.9% in the prior fiscal year (based on actuarial calculation). The employer contribution increased to 17.15% for FY23 (and increased to 18.5% in FY24 and moving forward). The funding period for the UAAL is now 22 years compared to 26 years in 2023 and 29 years in FY2022; ERB's goal is less than 30 years.
- The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the NMERB for its Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2023. NMERB has achieved this prestigious award numerous times. The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment for the NMERB. The Public Pension Coordinating Council (PPCC) also awarded the NMERB a Recognition Award for Administration for plan administration for the fiscal year ended June 30, 2024. This is the 14th consecutive year the NMERB has been recognized.
- **The audit report was unmodified. There were no financial statement findings, compliance issues, or internal control matters noted.**
- **Questions and Considerations?**
    - **Did the independent auditors have any recommendations during the exit interview?** No

STATE OF NEW MEXICO INVESTMENT COUNCIL (SIC)

- The FY 2024 SIC Financial Statements were audited by Moss Adams LLP, CPAs, Albuquerque, NM. Moss Adams has been the auditor for seven years and was selected in 2022 through an RFP process to conduct the audit for SIC for another four-year term.
- The audit is dated November 25, 2024, was completed on time, and was submitted to the State Auditor at that time. The audit opinion is unmodified. The audit also addresses internal controls.
- SIC has a mission "to protect and grow the state's permanent endowment funds for current and future generations, through prudent, professional investment management." The primary activity of the SIC is the administration and management of seven State of New Mexico permanent funds: the Land Grant Permanent Fund (LGPF), Severance Tax Permanent Fund (STPF), Tobacco Settlement Permanent Fund (TSPF), Water Trust Fund (WTF), Tax Stabilization Reserve Fund (TSRF), Rural Libraries Endowment Fund (RLEF) and the Early Childhood Education and Care Fund (ECECF), collectively valued at $49.2 billion for FY24. The SIC also manages long-term investments for 25 state agencies and political subdivisions (External Investment Trust Funds, EITF), which totaled over $1.9 billion in

FY24. EITF contributions totaled $258 million, an increase of $168 from FY23. Participants also redeemed $77 million in FY24 compared to $24 million in the previous year.

- Total investments and other assets managed, net liabilities of $1.7 billion, totaled $57.4 billion. Program revenues (tobacco settlement proceeds, opioid settlement proceeds, contributions from external investment trust funds, and federal revenues) totaled $385.3 million, while general revenues (distributions) totaled $8.0 billion. The permanent funds contribute recurring revenues for the operating budget of the State and the beneficiaries. Distributions to beneficiaries and the state's general fund totaled over $1.8 billion in FY 2024, up from $1.3 billion the previous fiscal year.
- The SIC employs 31 staff, with 37 positions authorized for FY26. Fifteen of those staff are investment professionals.
- It was reported that the LGPF and STPF net 1-year return was 8.47% and 6.87%, respectively, for FYE 2024,. The funds' long-term return targets are 7.00% and 6.75% respectively, and the 5-year return was reported at 7.43% and 5.64% as of FYE. Compared to public funds larger than $1 billion, SIC's LGPF one-year and five-year total return ranking was 61st and 22nd among its peers, respectively, and SIC's STPF one-year and five-year total return ranking was 85th for both time periods.
- The SIC's General Administrative Fund is derived from the LGPF and STPF, and any unused budget is reverted back to these funds with the completion of the annual audit. Thus, no state appropriations are used for the operations of SIC. On a budgetary basis, the SIC operated within its approved budget. The only significant budgetary variation was $5.7 million in contractual services that were not expended. Total expenditures for FY24 were $59.7 million, including $5.4 million for personnel services and benefits and other operating expenses. The majority of expenditures ($54.3 million) were for contractual services for asset management and advisors for the invested assets in the Governmental Funds and Fiduciary Funds.
- **The audit report opinion was unmodified. There were no financial statement findings, compliance issues, or internal control matters noted.**
- **Questions and Considerations?**
    - **Did the independent auditors have any recommendations during the exit interview?** The independent auditors made no recommendations during our exit interview.
    - **Did SIC report a negative unrestricted fund balance? If yes, please explain.** We did not have a negative unrestricted fund balance.