

MINUTES OF THE MEETING OF THE  
ADMINISTRATIVE AND AUDIT COMMITTEE OF THE BOARD OF TRUSTEES OF THE  
EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII

JULY 21, 2020

CITY FINANCIAL TOWER  
201 MERCHANT STREET, SUITE 1500  
HONOLULU, HAWAII 96813

Trustees present: Dr. Genevieve Ley, Chair  
(by teleconference) Mr. Benntt Yap, Vice Chair  
Mr. Wesley Machida  
Mr. Jerome Rauckhorst

Staff present: Mr. Thomas Williams, Executive Director  
(City Financial Tower Ms. Kanoë Margol, Deputy Executive Director  
by teleconference) Ms. Elizabeth Burton, Chief Investment Officer  
Mr. Karl Kaneshiro, Retirement Benefits Manager  
Mr. Keith Miyamoto, Information Services Manager  
Ms. Donna Curry, Program Specialist  
Mr. Bart Asato, Program Specialist  
Ms. Shanna Sakagawa, Program Specialist  
Ms. Dale Kehau Kanae, Recording Secretary

Attorneys present: Mr. Ivan Torigoe, Deputy Attorney General  
(by teleconference) Ms. Diane Wong, Deputy Attorney General

Guests present: Mr. Peter Hanashiro, KMH LLP (in person)  
(by teleconference) Mr. Alfred Ko, KMH LLP  
Mr. Tyson Suehiro, KMH LLP

QUORUM/CALL TO ORDER

A quorum being present (Chair Ley, Vice Chair Yap, Trustees Machida and Rauckhorst), Chair Ley called the meeting of the Administrative and Audit Committee (Committee) of the Board of Trustees (Board) of the Employees' Retirement System of the State of Hawaii (ERS) to order at 1:03 p.m.

On a motion made by Trustee Rauckhorst, seconded by Trustee Machida, and unanimously carried, to be able to hold a meeting closed to the public and allow Trustees to participate by teleconference or other remote meeting technology, pursuant to the Governor of the State of Hawaii's Ninth Supplementary Proclamation dated June 10, 2020, in order to implement social distancing measures.

PUBLIC COMMENT

Chair Ley called for public comment. There were no members of the public present by teleconference, therefore no public comments. There was also no public testimony received by e-mail for this Committee meeting.

Chair Ley announced that the New Business agenda items would be taken out of order starting with item No. 2, then No. 3, and finally No. 1.

REVIEW AND APPROVE  
EMPLOYEES' RETIREMENT  
SYSTEM COMMUNICATION  
PLAN

Program Specialist (PS) Donna Curry provided an oral and written report on the ERS Communication Plan.

PS Curry discussed with the Committee the ERS Communication Plan, as presented, and reported that all the revisions requested from the June 9, 2020 meeting were incorporated. PS Curry requested that if the Committee had no further revisions, that they approve and recommend the Communication Plan to the Board for approval.

The Committee requested that at future meetings they be updated on what is being carried out with the Communication Plan. It was noted that the Communication Plan is also a part of the Strategic Plan and the Internal Audit Report.

The Committee also requested to consider adding under Purpose, 1., Mission, "Provide members with accurate and timely information to enable best retirement decisions." It was noted that the Mission was taken from the Strategic Plan and it was suggested that consideration be given to also add it to the Strategic Plan. After discussion, it was decided to add it under Goals and Objectives, External Communications, 2.c. It was also agreed to be add to the Strategic Plan under Goal 4.

On a motion made by Trustee Machida, seconded by Trustee Rauckhorst, and unanimously carried, the Committee accepted the Communication Plan with the added revision suggested above and will be recommending it for approval by the Board.

REVIEW AND APPROVE THE  
INTERNAL AUDIT PLAN

KMH LLP's (KMH) Messrs. Peter Hanashiro attending in person, Tyson Suehiro attending by teleconference, and Alfred Ko attending by telephone, provided the Committee an update from the last meeting of June 9, 2020, the ERS Internal Audit Report and discussed in summary:

STATUS ON CURRENT PROJECTS

*Human Resources, Personnel Development & Retention Review*

- Project fieldwork in process and approximately 75% complete. The revised project completion date is end of July 2020 with final report draft in August 2020.

2020 INTERNAL AUDIT PLAN PROPOSED CHANGES

- 2020 Internal Audit Plan was evaluated and revised to adjust for the deferring of project activities from April to June.
- Held meetings with the Administrative & Audit Committee Chair, Executive Director and Deputy Director, and IT Manager to obtain feedback on changes to the existing plan, highest risk areas and prioritization of projects to be completed in 2020.
- Select projects have been deferred and will be reevaluated as part of the Risk Assessment and Internal Audit Development for 2021-2022. No new projects were added to the Plan.

KMH requested the Administrative & Audit Committee approve the proposed changes and updates to the 2020 Internal Audit Plan.

On a motion made by Trustee Machida, seconded by Vice Chair Yap, and unanimously carried, the Committee accepted the proposed changes

and updates to the 2020 Internal Audit Plan and will be recommending it for approval by the Board.

**REVIEW AND APPROVE  
ADMINISTRATIVE AND  
AUDIT COMMITTEE  
CHARTER**

Chair Ley discussed with the Committee that all revisions were made to the Administrative & Audit Committee Charter as presented from the last meeting of June 9, 2020. The Committee had no additional revisions.

On a motion made by Trustee Rauckhorst, seconded by Vice Chair Yap, and unanimously carried, the Committee accepted the modifications to the Administrative & Audit Committee Charter as presented and will be recommending it for approval to the Board. (A revised Administrative & Audit Committee Charter is attached for clarification).

Chair Ley requested to go into Executive Session to discuss, with the Committee, items related to the Charter.

**ENTER EXECUTIVE SESSION**

On a motion made by Trustee Machida, seconded by Trustee Rauckhorst, and unanimously carried, the Committee entered into Executive Session at 1:42 p.m.

(Public participation concluded by ending the teleconference link. All parties were excused from the meeting both in room and by teleconference except for the Committee and Deputy Attorney General (DAG) Ivan Torigoe.)

(See DAG Torigoe's Confidential Supplemental Minutes for this portion of the meeting.) (DAG Torigoe recorded the minutes for the remainder of the meeting.)

**EXIT EXECUTIVE SESSION**

On a motion made by Trustee Machida, seconded by Vice Chair Yap, and unanimously carried, the Committee exited Executive Session at 2:12 p.m.

**APPROVAL OF MINUTES  
- JUNE 9, 2020**

On a motion made by Vice Chair Yap, seconded by Trustee Machida, and unanimously carried, the Committee approved the minutes of the June 9, 2020, meeting as presented.

**ADJOURNMENT**

On a motion made by Trustee Machida, seconded by Vice Chair Yap, and unanimously carried, Chair Ley adjourned the meeting at 2:15 p.m.

**REDACTED SIGNATURE**

Thomas Williams  
Executive Director

TW:dkik



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**I. PURPOSE**

The Administrative & Audit Committee (Committee) of the Employees' Retirement System ("ERS") of the State of Hawaii is a committee of the Board of Trustees ("Board"). Its primary function is to assist the Board in fulfilling its oversight responsibilities relating to:

- A. The integrity of the ERS's financial statements and the accounting and financial reporting processes;
- B. The ERS's compliance with legal and regulatory requirements;
- C. The qualifications, independence and performance of the ERS's internal and external auditors;
- D. Monitoring the performance of the systems of internal controls established by management and the Board;
- E. Monitoring the performance of the ERS's internal and external ~~audits-activities; and~~
- F. The business practices and ethical standards of the ERS; and
- G. The review and monitor of the administration of the ERS.

~~It is the responsibility of the~~ The Audit Committee ~~to~~ provides an avenue of open and free communication between the Board, the internal auditors, the external auditors and management of the ERS. ~~The Audit Committee shall also perform such other functions set forth in this charter.~~

**II. COMMITTEE MEMBERSHIP**

- A. The membership of the ~~Audit~~ Committee shall consist of at least three members of the Board ~~who shall be appointed by the Chair of the Board and may be removed at any time.~~



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- B. The Board members of the ~~Audit-Committee and its Chair~~ shall be ~~approved by the Board~~ appointed annually by the Board Chair. Committee appointments can be changed at the discretion of the Board Chair at any time. and shall serve one year terms or until their successors are elected or their earlier resignation or removal. ~~The Board shall approve members for a period shorter than one year.~~ In the event of a vacancy (due to member resignation, removal, or death), the Board Chair will appoint a replacement to serve the remainder of the term.
- C. ~~Audit Committee members shall possess or obtain a basic understanding of governmental financial reporting and auditing.~~ The members of the Committee shall be responsible for electing its Chair and Vice Chair.
- D. ~~Members of the Audit Committee shall be considered independent if they have no relationship to the ERS that may interfere with the exercise of their fiduciary responsibilities.~~

**III. MEETINGS**

- A. The ~~Audit~~ Committee must meet at least ~~two~~three times per year or more frequently as circumstances require, with prior notice and publication of the agenda as provided by law. ~~The Audit Committee may ask members of management or others to attend the meeting and provide pertinent information as necessary.~~
- B. The ~~Audit~~ Committee ~~Chair~~ may ask members, ERS management, advisors, and others to attend Committee meetings to provide pertinent information as necessary ~~call a special meeting of the Audit Committee upon due notice to the Chair of the Board and each other member, and with prior notice and publication of the agenda as provided by law.~~



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**IV. AUTHORITY**

The ~~Audit~~ Committee shall have the power to conduct or authorize investigations into any matters within the ~~Audit~~ Committee's scope of responsibilities, ~~and shall recommend to the Board, retention of independent counsel, accountants, or others to assist in~~ the conduct of any investigation. ~~The~~ Audit Committee shall have the authority to seek information it requires from ERS employees, management, and external parties; and to engage advisors, or otherwise obtain independent legal, accounting, consulting, or other professional services it requires, at the expense of the ERS, with the approval of the Board.

**V. RESPONSIBILITIES**

The Committee provides oversight of various ERS functions: Administration, Risk Assessment, External Audits, Internal Audits, and others. In fulfilling its oversight responsibilities, Committee members need to maintain an independent stance. Members of the Committee shall be considered independent if they have no relationship to the ERS that may interfere with the exercise of their fiduciary responsibilities.

It is the duty of the Committee to report regularly to the Board with respect to any issues that arise concerning:

- A. the quality or integrity of the ERS' financial statements,
- B. the ERS' compliance with legal or regulatory requirements,
- C. the performance and independence of the ERS' external auditors,
- D. the performance of the internal audit function,
- E. or any other matter within the scope of the Committee's function.

**Commented [KD1]:** Moved from "Limitations of the Audit Committee's Role, last sentence" to "Responsibilities, second paragraph" with edits.



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In carrying out its oversight responsibilities, the ~~Audit~~ Committee's practices/procedures should remain flexible in order to best react to changing conditions and assure the Board that the risk assessment process, the accounting and financial reporting processes, internal controls, and internal and external auditing are in accordance with all related requirements and are of the highest quality. ~~In addition to fulfilling its duties as a member of the Board, the Audit Committee is expected to:~~

Oversight Responsibilities Regarding Administration:

- A. Annually review the ERS strategic goals and objectives adopted by the Board and if appropriate, recommend any changes.
- B. Monitor Administration's implementation of these strategic goals and objectives.
- C. Provide direction to the Executive Director (ED) and Deputy Executive Director (DED) on priorities and actions to successfully execute the responsibilities of the Administrative Branch.
- D. Monitor compliance with administrative policies.

Oversight Responsibilities Regarding Risk Assessment:

- A. Inquire of management, the internal auditors, and the external auditors about significant risks or exposures.
- B. Meet with the necessary parties to discuss the results of periodic risk assessments and obtain a clear understanding of the risk assessment process.
- C. Assess the steps management has taken to minimize significant risks or exposures to the ERS.

Accounting and Financial Reporting Processes and Internal Controls

- ~~D. Obtain a clear understanding of the ERS's accounting and financial reporting processes and critical policies, and ensure that the financial leadership team is qualified and competent.~~

**Commented [KD2]:** Moved from "Accounting and Financial Reporting Processes and Internal Controls, D" to "Oversight Responsibilities Regarding External Audits, A" with edits.



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- ~~E. Review the adequacy and effectiveness of the ERS's accounting and financial controls (including information technology and security controls) with financial and accounting personnel, internal auditors, and external auditors, and elicit any recommendations for the improvement of the system of internal controls or particular areas where new or more detailed controls or procedures are desirable. Assess the integrity of the annual financial statements and related disclosures, including significant accounting judgments and estimates.~~
- ~~F. Obtain an understanding of any corrective actions to be taken with regard to controls and procedures.~~
- ~~G. Coordinate with the Administrative and Legislative Committee, Investment Committee, and Compensation Review Committee, as deemed necessary.~~

Oversight Responsibilities Regarding Internal Auditors:

- AH. Where appropriate, oversee the procurement of internal auditing services and recommend to the Board:
- ~~(1) the internal auditor to be nominated;~~
  - ~~(2) approval of the audit fees of for the internal auditor;~~ and
  - ~~(3) the discharge of the internal auditor.~~
- BE. Review the adequacy and effectiveness of the ERS's accounting and financial controls (including information technology and security controls) with:
- 1. personnel (from financial, and accounting, and information systems);
  - 2. personnel, internal auditors, and external auditors; and
  - 3. elicit any recommendations for the to improvement of the system of internal controls or particular areas where new or more detailed controls or procedures are desirable. Assess the integrity of the annual financial statements and related disclosures, including significant accounting judgments and estimates.

**Commented [KD3]:** Moved from "Accounting and Financial Reporting Processes and Internal Controls, E" to "Oversight Responsibilities Regarding Internal Audits, B" with edits. Except last sentence moved to "Oversight Responsibilities Regarding External Audits, E".

**Commented [KD4]:** Moved from "Accounting and Financial Reporting Processes and Internal Controls, F" to "Oversight Responsibilities Regarding Internal Audits, C".

**Commented [KD5]:** Moved from "Accounting and Financial Reporting Processes and Internal Controls, F" to "Oversight Responsibilities Regarding Internal Audits, C".

**Commented [KD6]:** Moved from "Accounting and Financial Reporting Processes and Internal Controls, G" to "Other Oversight Responsibilities, G" with edits.

**Commented [KD7]:** Moved from "Accounting and Financial Reporting Processes and Internal Controls, E" to "Oversight Responsibilities Regarding Internal Audits, B" with edits.





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- ~~CE.~~ Obtain an understanding of any corrective actions to be taken with regard to controls and procedures.
- ~~DE.~~ Recommend to the Board any co-sourcing or outsourcing internal audit services.
- ~~FE.~~ Review the ERS Internal Audit Charter, including the independence and authority of the internal audit function, and its reporting obligations, qualifications, and staffing for the coming year.
- ~~KE.~~ Review ~~and approve~~ the annual internal audit plan (and all major changes to the plan) and recommend its approval to the Board.
- ~~LE.~~ Review the reports and findings/recommendations of the internal auditors and the responses of the ERS management, and monitor ~~s~~ completion of management's action plans.
- ~~MH.~~ Review a summary of major findings from completed internal audits and a progress report on the execution of the internal audit plan and management's implementation of action plans ~~(on a periodic basis).~~
- ~~OI.~~ ~~On a regular basis, m~~Meet separately with the Chief Audit Executive<sup>1</sup> and/or management to discuss any matters that the Committee, or these parties, believe should be discussed privately is deemed necessary by the Audit Committee or the internal auditor.
- ~~NJ.~~ Review the effectiveness of the ~~i~~Internal ~~a~~Audit Plan functions, including compliance with the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing.
- ~~PK.~~ ~~Periodically r~~Report the results of the Internal Audit Plan to the Board. ~~If desired by~~ At the Board, invitation of the Committee, the internal auditors ~~to will~~ attend Board meetings to assist in reporting the results of the Internal Audit Plan ~~or and~~ to answer questions.

**Commented [KD8]:** Moved from "Accounting and Financial Reporting Processes and Internal Controls, F" to "Oversight Responsibilities Regarding Internal Audits, C".

<sup>1</sup> The Chief Audit Executive may be an individual employee or a firm contracted to outsource or co-source the internal audit function.



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Oversight Responsibilities Regarding External Auditors

- DA. Obtain a ~~clear~~ basic understanding of ~~the ERS's~~ government accounting, ~~and~~ financial reporting, auditing processes, and critical policies, and ensure that the financial leadership team is qualified and competent.
- BR. Oversee the procurement of external auditing services and recommend to the Board:
- (1). the external auditor to be nominated;
  - (2). approval of the audit fees of the external auditor; and
  - (3). the discharge of the external auditor.
- CY. Review prior year comments from the Government Finance Officers Association ("GFOA") in its determination of the ERS's compliance with the requirements for the Certificate of Achievement in Financial Reporting, where applicable.
- DW. Review with management and the external auditor the draft financial statements to be filed with the GFOA.
- E. Assess the integrity of the annual financial statements and related disclosures, including significant accounting judgements and estimates.
- FQ. Review and examine the independence (including any potential conflict of interest) of the external auditor, including a review of management consulting services and related fees provided by the external auditor.
- GS. Review with the external auditor the coordination of audit effort to assure completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.
- HT. Review, at least annually, with management and/or the external auditor:
- #1. Scope of the proposed audit for the current fiscal year and the procedures to be utilized.
  - #2. The ERS's annual financial statements and related footnotes.
  - #3. The external auditor's audit of the financial statements and ~~his or her~~ audit

**Commented [KD9]:** Moved from "Accounting and Financial Reporting Processes and Internal Controls, D" to "Oversight Responsibilities Regarding External Audits, A" with edits.



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report thereon.

- iv4. The adequacy of the ERS' ~~s~~ internal financial controls.
- v5. Any significant changes required in the external auditor's scope and audit plan.
- vi6. Other matters related to the conduct of the audit, which are to be communicated to the ~~Audit~~ Committee under Generally Accepted Government Auditing Standards, including audit adjustments made and passed.
- vii7. Judgments about the quality, not just the acceptability of accounting principles and the clarity of the financial disclosures ~~practices used or proposed to be used, and particularly the degree of aggressiveness or conservatism of accounting principles and underlying estimates.~~
- viii8. Any difficulties encountered in the course of their external audits, including any disputes with management, restrictions on the scope of their work or access to required information.
- ix. Consider and review with management any significant findings during the fiscal year and recommendations of the external auditors and management's responses thereto.
- x. Meet separately with the external auditor and/or management ~~in separate meetings~~ to discuss any matters ~~that~~ the ~~Audit~~ Committee, or these ~~groups~~ ~~parties~~, believe should be discussed privately with the ~~Audit~~ Committee.
- xi. Report the results of the annual external audit to the Board. At the invitation of the Committee, if desired by the Board, invite the external auditors ~~to will~~ attend a Board meetings to assist in reporting the results of the annual audit ~~or~~ and to answer questions.

Other Oversight Responsibilities:

- xiA. Report Audit Committee actions, including any investigative actions, to the Board with such recommendations as the ~~Audit~~ Committee may deem appropriate.



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- AAB**. Monitor the implementation of procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls, auditing or other matters, including mechanisms for anonymous submission of related concerns by ERS employees or the appropriate bodies.
- BBC**. Consult with the Attorney General on legal matters regarding financial transactions, fraud, or any other issue that could have significant impact on the annual reports.
- CCD**. Obtain any information and training needed to enhance the **Audit** Committee members' understanding of the role of internal and external auditors, the risk management process, internal controls and a certain level of familiarity in government financial reporting standards and processes.
- DDE**. Obtain the Board's approval of this Charter and, on an annual basis, evaluate the adequacy of this Charter and recommend any proposed changes to the Board for approval.
- EEF**. Confirm annually that the Committee has performed its all-responsibilities as outlined in this Charter ~~have been carried out~~.
- G. Coordinate with the ~~Administrative and~~ Legislative Committee, Investment Committee, Governance Policy Committee, and Compensation Review Committee, as deemed necessary.
- FFH**. Perform such other functions as assigned by the Board.

**Commented [KD10]:** Moved from "Accounting and Financial Reporting Processes and Internal Controls, G" to "Other Oversight Responsibilities, G" with edits.

**VI. LIMITATIONS OF THE ADMINISTRATIVE AND AUDIT COMMITTEE'S ROLE**

- A.** It is not the duty of the **Audit** Committee to plan or conduct audits or to determine that the ERS's financial statements are complete, accurate, and in accordance with Generally Accepted Accounting Principles. This is the responsibility of management and the external auditors.
- B.** ~~Furthermore, w~~ While the **Audit** Committee is responsible for reviewing the ERS's



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policies and practices with respect to risk assessment and management, it is the responsibility of the Executive Director and senior management to determine the appropriate level of the ERS's exposure to risk. ~~It is the duty of the Audit Committee to report regularly to the Board with respect to any issues that arise concerning the quality or integrity of the ERS's financial statements, the ERS's compliance with legal or regulatory requirements, the performance and independence of the ERS's external auditors, the performance of the internal audit function, or any other matter within the scope of the Audit Committee's function.~~

**Commented [KD11]:** This last sentence moved from "Limitations of the Audit Committee's Role" to "Responsibilities, second paragraph" with edits.

*Last Revised: ~~April 2019~~ July 2020*