Board Packet List of Documents

Board of Trustees Administrative & Audit Committee Meeting
October 23, 2024

- Meeting Agenda

- New Business
  NB 1 – KMH LLP Internal Audit Update Report
  NB 2 – KMH LLP Follow-Up Review Report
  NB 4 – Program Specialist Report on ADOBE Experience Manager

- APPROVAL OF MINUTES – June 25, 2024

Board Packet Documents are available to the public for inspection on the Employees' Retirement System's Website: https://ers.ehawaii.gov/board-and-committee-agendas-and-meeting-packets, and in the Employees' Retirement System's Office, 201 Merchant Street, Suite 1400, Honolulu, HI 96813

NOTICE OF REGULAR MEETING

AGENCY: Administrative and Audit Committee of the
           Board of Trustees of the Employees' Retirement System of the State of Hawaii

DATE: Wednesday, October 23, 2024; 2:00 p.m.

PLACE: City Financial Tower, 201 Merchant Street, Suite 1200, Honolulu, Hawaii 96813

           The meeting will be conducted pursuant to HRS §92-3.7, under which Members of the Board of Trustees may participate via interactive conference technology; and members of the public may also participate via interactive conference technology or in person at the meeting place stated above.

           Members of the public may also attend the meeting and provide testimony in person or by teleconference, either audio or video, at the following link or phone number:
           https://teams.microsoft.com/l/meetup-join/19%3ameeting_ZTJiZDU1MDktY2YzYi00ZTY0LWE1NmItZmNmMjQ5YmFjN2Rk%40thread.v2/0?context=%7b%22Tid%22%3a%223847dec6-63b2-43f9-a6d0-58a40aaa1a10%22%2c%22Oid%22%3a%228f795840-377f-479d-bb5d-6ec41c4a01bc%22%7d
           Or join by entering meeting ID: 296 265 701 19   Passcode: 6jnybf

           Individuals testifying at the meeting are requested to limit their testimony to three (3) minutes or an amount of time otherwise designated by the Chairperson.

           Or +1 808-829-4853 United States, Honolulu (Toll)
           Conference ID: 247 226 367#

           In the event audiovisual communication cannot be maintained with participating Trustees and quorum is lost, the meeting shall be automatically recessed for up to 30 minutes, during which time, an attempt to restore audiovisual communication will be made. If such attempt is unsuccessful, all Trustees, members of the public, staff and other interested individuals may continue to participate in the meeting via telephone using the above-listed telephone and conference ID numbers, whereby audio-only communication will be established for all participants and the meeting will continue. If reconvening the meeting is not possible because neither audiovisual nor audio-only communication can be re-established, the meeting will be terminated.

AGENDA

QUORUM/CALL TO ORDER

Motion to hold the meeting allowing Trustees and members of the public to participate by interactive conference technology, pursuant to HRS §92-3.7, with at least one meeting location open to the public that has audiovisual connection.

PUBLIC COMMENT

Members of the public may submit written testimony on these agenda items via e-mail or postal mail with receipt recommended by 4:30 p.m. on Tuesday, October 22, 2024, in order to ensure it is distributed in time for consideration. Please address written testimony if by e-mail to: dale.kanae@hawaii.gov or by postal mail to: Employees' Retirement System of the State of Hawaii, Board of Trustees, 201 Merchant Street, Suite 1400, Honolulu, HI 96813.

NEW BUSINESS

1. Internal Audit Update Report by KMH LLP on the Current Status of Activities Completed During Q3, 2024, and an Update on the Completion Status of Management Action Plans for Past Internal Audit Observations and Recommendations.

2. Follow-Up Review Report by KMH LLP on the Current Status of Previously "Cleared" Internal Audit Observations and Recommendations.

3. Compliance Support Staff Report on General Duties and Current and Future Projects.

4. Report by Program Specialist on the Implementation of the ADOBE Experience Manager for Purposes of Imaging Efficiency.

Pursuant to HRS §92-5(a)(4), and (8), the Committee may enter into Executive Session to consider information that must be kept confidential pursuant to a state or federal law; and to consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities with respect to these matters.

APPROVAL OF MINUTES – June 25, 2024

EXECUTIVE SESSION

1. Executive Session, pursuant to HRS §92-5(a)(4), and (6), to consider and consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities, and to consider sensitive matters related to the Roadmap Report prepared as part of the Internal Audit's Virtual Chief Information Security Officer (vCISO) Project.

2. Executive Session, pursuant to HRS §92-5(a)(4) and (6), to consider and consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities, and to consider sensitive matters related to an Update on the Implementation of ERS' Compliance Program on Risk Assessment, Policies & Procedures, and Third-Party Risk Management.

3. Executive Session, pursuant to HRS §92-5(a)(4) and (6), to consider and consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities, and to consider sensitive matters related to Cyber Security Updates.

4. Executive Session, pursuant to HRS §92-5(a)(8), to Review and Approve Executive Session Minutes of June 25, 2024.

ADJOURNMENT

If you require auxiliary aid/service or other accommodation due to a disability, please contact Dale Kehau Kanae at (808) 586-1706 or dale.kanae@hawaii.gov as soon as possible, preferably by Friday, October 18, 2024, and the ERS will try to obtain the auxiliary aid/service or accommodation, but cannot guarantee that the request will be fulfilled.

Upon request, this notice can be made available in large print.

Employees' Retirement System
INTERNAL AUDIT

Employees' **Retirement** **S**ystem
of the State of Hawaii

ADMINISTRATIVE & AUDIT COMMITTEE UPDATE REPORT

October 23, 2024

TABLE OF CONTENTS

Executive Summary

Administrative and Other Matters

- Internal Audit ("IA") regularly meets with Executive Management to keep them apprised of current and upcoming IA projects and discuss new or updated needs of the organization.

- Continue to meet with the Chief Compliance Officer ("CCO") on a weekly basis to stay apprised on current ERS and CCO initiatives, emerging risk areas, challenges and issues, and upcoming events and other matters.

- IA continues to monitor and stay up to date on new resources and tools issued by the Institute of Internal Auditors ("IIA") related to conformance with the new mandatory Global Internal Audit Standards.

  o Currently in the process of updating our internal audit methodology, specifically revising references/mapping from the prior standards and updating for new terminology/definitions, in order to align with the new standards.

  o Updates to the Internal Audit Charter and Administrative & Audit Committee Charter to reflect the new standards will be presented to the Administrative & Audit Committee for approval in alignment with the January 9, 2025 effective date.

Status on Current Projects:

Follow-Up Review

- Review completed in September 2024.

- IA selected six reports for this review comprising a total of ten "cleared" findings. Of the ten findings reviewed, six findings and associated recommendations were properly "implemented" by the responsible manager and four were deemed "partially implemented" and required additional recommendations.

- **Action: Seeking approval from Administrative & Audit Committee of Final Draft Report**

Executive Summary (continued)

Virtual Chief Information Security Officer (vCISO)

- Dave Collins, RSM vCISO, has been providing services to the ERS since April 2024.

- The project goals and objectives were to:

  o Provide a C-level resource to help define, implement, and mature a Cybersecurity Strategy and Roadmap.

  o Help to align current priorities and projects, along with determining new areas of focus, that align with the business needs and growth plans, while focusing on the applicable risk posture of the organization.

  o Help to assist in setting strategy; formalize, and operationalize cybersecurity into the day-to-day operations of the organization.

- RSM vCISO developed recommendations and a 2-Year Cybersecurity Remediation Roadmap based on ERS' overall risk and program needs.

- Upcoming "Implementation of Cybersecurity Strategy and Roadmap" project will be used to provide assistance to the ERS with remediation activities identified in the roadmap.

Continuous Monitoring Tool Development – Part 2

- RSM/KMH project plan to automate payroll review processes related to employer compliance requirements was presented to Executive Management and the Accounting and Information Systems Branches in October 2024.

- Planned automation will include the implementation of data analytics and continuous monitoring solutions to monitor employer compliance with requirements as well as the ability for the ERS to view dashboard reporting on each employer's compliance statistics and results.

- Execution of the approximately 8-week project plan will be included in the 2025 internal audit plan.

Executive Summary (continued)

Investment Manager Selection and Evaluation Review

- Currently in the fieldwork phase of this review.

- The review objectives are to:
  - Evaluate the Investment Office's compliance with the requirements and internal controls set forth in the ERS' Investment Manager Selection Process Framework; which is comprised of stages to identify, evaluate, recommend, and approve prospective investment managers.

  - Assess whether the ERS' Investment Manager Selection Process Framework aligns with leading practices recommended by professional investment organizations and/or performed by peer pension systems in order to identify opportunities to enhance the current framework.

  - Provide recommendations and leading practices for improvements to enhance effectiveness and efficiency, where applicable.

- Estimated review completion is December 2024.

Risk Assessment Re-Evaluation and Audit Plan

- The Risk Assessment Re-Evaluation process will begin in November 2024 and will also include the development of the 2025-2026 Internal Audit Plan.

- During November and December 2024, IA will be scheduling and conducting meetings with the following parties:
  - Board of Trustees
  - Executive Management
  - Branch Chiefs
  - ERS' External Auditor

Summary Results of Reports Completed

<u>2024 Follow-Up Review:</u>

Background and Project Objectives:

- This Follow-Up Review was added to the Internal Audit Plan in order to validate the accuracy of finding updates provided by ERS Management, specifically findings and associated recommendations reported as "cleared".

- The objectives of our review were to:

  o Assess the progress that responsible managers have made in implementing recommendations suggested by IA for previously "cleared" findings.

  o Validate whether cleared finding recommendations have been implemented through inquiry with responsible managers and inspection of supporting documents.

  o For finding recommendations deemed partially or not implemented, understand the reasons why it was not implemented and provide management with updated resolutions or recommendations to enhance effectiveness and efficiency, where applicable.

- Scope included following up on ten previously cleared findings from six internal audit reports, issued between 2017 and 2021. Reports include:

  o Investment and Risk Monitoring and Reporting Review (issued June 2017)

  o Financial Reporting Process Review (issued April 2019)

  o Investment Consultant Selection and Evaluation Review (issued September 2019)

  o Communications and Community Relations Review (issued February 2020)

  o HR – Personnel Development & Retention Review (issued October 2020)

  o Benefit Estimates & Final Benefit Calculation Processing Review (issued May 2021)

- See final draft report for a more detailed discussion and background on this project.

Summary Results of Reports Completed (continued)

Summary of Results:

Of the ten findings reviewed, six findings and associated recommendations were properly "implemented" by the responsible manager and four were deemed "partially implemented" and required additional recommendations.

Finding Number	Date Originally "Cleared" [1]	Current Status
Investment and Risk Monitoring and Reporting Review		
1	August 2019	Partially Implemented
2	August 2019	Partially Implemented
Financial Reporting Process Review		
1	September 2020; February 2021	Implemented
2	February 2020	Implemented
Investment Consultant Selection and Evaluation Review		
1	September 2020	Partially Implemented
3	September 2020; February 2021	Implemented
Communications and Community Relations Review		
1	September 2020	Implemented
HR – Personnel Development & Retention Review		
1	February 2021	Partially Implemented
Benefit Estimates & Final Benefit Calculation Processing Review		
1	February 2022	Implemented
2	February 2022	Implemented

[1] Date Originally "Cleared" is the date in which the finding is reported as "cleared" via finding status updates in IA's Administrative & Audit Committee Meeting Update Report.

2024 Internal Audit Plan Results Summary

Internal Audit Plan Period: January 1, 2024 through December 31, 2024																
	Q1 2024			Q2 2024			Q3 2024			Q4 2024			Hours			
PROJECT	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Budget*	Actual*	ETC*	Variance*
IA 2023 Carryover Projects																
Member Enrollment & Re-Enrollment Review													100	118	-	18
Continuous Monitoring Tool Development - Part 1													85	93	-	8
Business Continuity Plan – Crisis Communication Plan Development													100	91	-	(9)
IA Assurance																
Follow-Up Review													300	295	10	5
Investment Manager Selection & Evaluation Review													400	108	292	-
Contracting & Procurement Review													400	-	400	-
IA Advisory & Other																
Virtual Chief Information Security Officer (vCISO)													300	312	5	17
Implementation of Cybersecurity Strategy and Roadmap													350	-	350	-
Continuous Monitoring Tool Development - Part 2													250	22	228	-
Compliance Office Collaboration and Assistance													150	196	30	76
IA Recommendation & Implementation Assistance													100	-	40	(60)
Risk Assessment Re-Evaluation & Audit Plan for Year 3 & Year 4													250	-	250	-
Reporting, Communication and Other Administration													250	204	75	29
											Total Hours		3,035	1,439	1,680	84

◆ Project Start Date   ▬ In Process   ▬ Draft Report Issued - Pending Mgmt Responses and/or A&AC Approval   ▬ Completed - Final Report or Deliverable Issued   ◆—◆ Consulting & Other Projects   ◆--◆ Meetings, Board Support, Other

Key: Budget: Original Approved Budget and Budget Changes Approved by the Administrative & Audit Committee
Actual: Actual Hours Incurred Through September 30, 2024
ETC: Estimated Time to Complete
Variance: [(Actual + ETC) - Budget] = over / (under) budget

Management Action Dashboard

The following represents the status of IA observations and recommendations from the reports issued in the past seven years.

| Name of Review	Contact	Overall Rating[1]	Total Number of Findings	Number of Findings Ranked			Completion Status (Only "High" and "Moderate" / "Medium" findings were tracked for the first four projects listed below)					
				"High"	"Moderate" or "Medium"	"Low"	Cleared	Outstanding - Not Overdue	Outstanding - Extended Original Target Date	Outstanding - Funding Shortfall	Overdue	Mgmt Chose Not to Implement
IT Security Rapid Assessment & Internal Network Security Review ("INSR")	IT Manager	Unacceptable	12	6	6	0	9	0	0	0	3	0
Cash & Liquidity Management Review	Accounting Manager	Marginal	4	0	3	1	0	0	0	0	3	0
Disability Hearings and Contested Cases Review	Retirement Benefits Manager	Marginal	6	2	4	0	6	0	0	0	0	0
Investment and Risk Monitoring and Reporting Review	Chief Investment Officer	Marginal	3	0	2	1	2	0	0	0	0	0
Financial Reporting Process Review	Accounting Manager	Marginal	5	1	4	0	2	0	0	0	3	0
Investment Consultant Selection and Evaluation Review	Chief Investment Officer, Accounting Manager	Generally Satisfactory	3	0	2	1	2	0	0	0	0	1
Communications and Community Relations Review	Program Specialist	Generally Satisfactory	1	0	1	0	1	0	0	0	0	0
Human Resources - Personnel Development & Retention Review	Deputy Executive Director	Generally Satisfactory	2	0	2	0	1	0	0	0	1	0
Cloud Risk and Security Assessment - Phase 1	IT Manager	Marginal	5	0	4	1	0	0	5	0	0	0
Benefit Estimates & Final Benefit Calculation Processing Review	Retirement Benefits Manager	Generally Satisfactory	2	0	1	1	2	0	0	0	0	0
Employer Communication & Reporting Review	Retirement Benefits Manager, Accounting Manager, Program Specialist	Marginal	3	0	2	1	2	0	1	0	0	0
Investment Governance Structure & Oversight Review	Chief Investment Officer	Strong	0	0	0	0	0	0	0	0	0	0
Cloud Risk and Security Assessment - Phase 2	IT Manager	Unacceptable	5	4	1	0	0	0	4	0	1	0
Member Enrollment & Re-Enrollment Review	Retirement Benefits Manager, SSS Supervisor, IT Manager	Unacceptable	5	2	3	0	0	3	2	0	0	0
TOTAL			**56**	**15**	**35**	**6**	**27**	**3**	**12**	**0**	**11**	**1**

Management Action Dashboard (continued)

[1] **Overall Rating Definitions:**

- **Strong –** The area reviewed has effectively assessed and managed its risks, implemented control processes, and complied with applicable policies, procedures, and appropriate laws and regulations. Internal control systems are sufficiently comprehensive and appropriate to the size and complexity of the organization. Monetary risk associated with control failures, if any, is not material. A few inconsistencies may have been noted, but compensating controls exist that sufficiently minimize the risk of loss (e.g., financial, reputational).

- **Generally Satisfactory** – The area reviewed has adequately assessed and managed its risks, and has implemented generally effective control processes. Some weaknesses in controls may have been noted, but they are not such that the area is significantly exposed to risk of loss. Weaknesses or deficiencies identified are correctable in the normal course of business. Such areas are in general compliance with applicable policies, procedures, and appropriate laws and regulations.

- **Marginal** – The area reviewed has control, policy, procedural, compliance and/or repeat findings that are sufficiently important to warrant the attention of more senior levels of management. Any deterioration in the current operating routine could lead to serious exposures and stakeholder criticisms. Should weaknesses continue without attention, they could lead to further deterioration of the rating to an *unacceptable* status.

- **Unacceptable** – The area reviewed has serious control, policy, procedural, compliance and/or repeat findings. Exposure to potentially serious risk of loss exists. Exposure may also exist to potentially serious criticism by stakeholders. Such situations require urgent senior management involvement in implementing corrective action. Corrective action should be initiated immediately and may require significant amounts of time and resources to implement.

Management Action Plans – Completion Status

The following represents the number of findings that are cleared; outstanding – not overdue; outstanding – funding shortfall; findings for which there have been extensions granted; findings for which management chose not to implement; and overdue for each review. After the granting of two extensions, if the finding is not cleared, it will be shown as overdue.

Completion Status
As of September 30, 2024
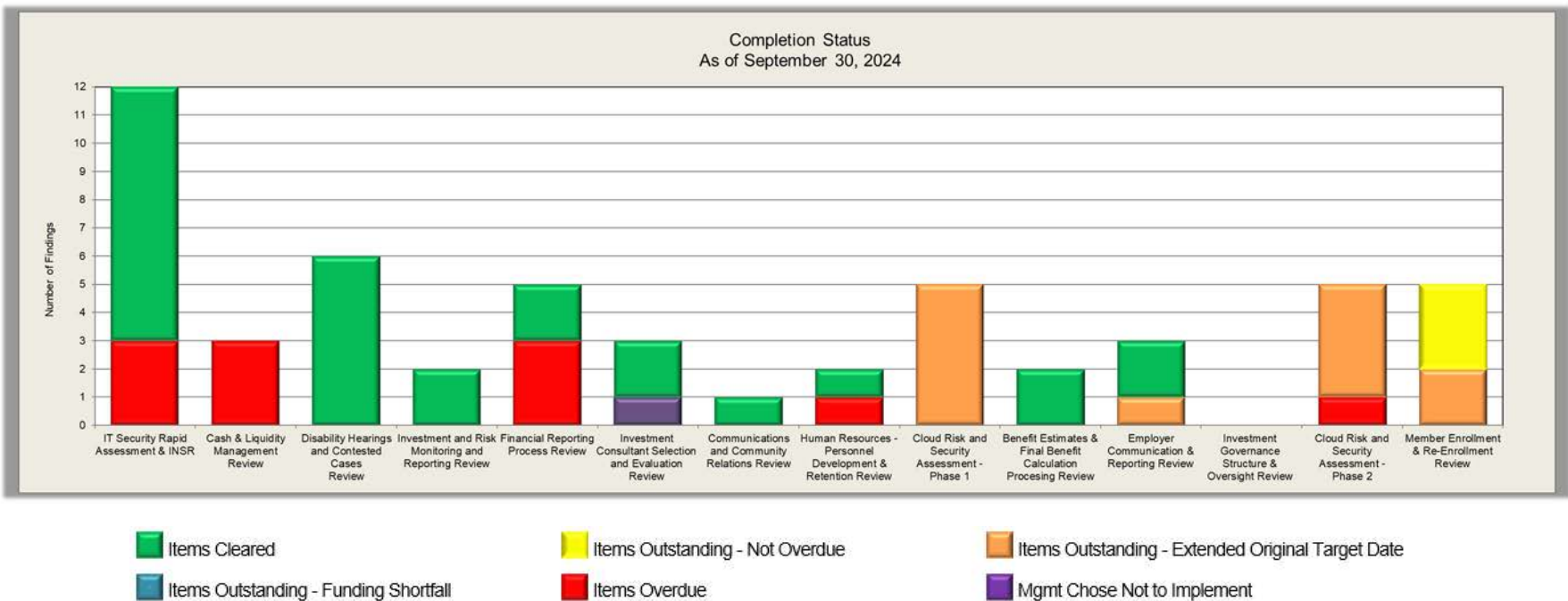
Cumulative Observation Analysis

Based on the 23 reviews completed over the last few years, we compiled a listing of common observations across the reviews. Management is currently in the process of addressing these organization-wide improvement opportunities.

Common Observations				
	Areas for Improvement			
Reports Issued	Oversight & Monitoring	Policies and/or Procedures	Obtaining Appropriate Resources	Developing Efficient Processes
Member Enrollment & Re-Enrollment Process Review	X	X	X	X
Records Management & Retention Review	X	X		X
Investment Manager Selection & Evaluation Review		X	X	X
Access Controls Review	X	X	X	
Data Collection & Maintenance Review	X	X		X
Member Retirement Application & Eligibility Review	X	X		X
Unclaimed Member Benefits & Accounts Review	X	X		X
Benefit Disbursement Review	X	X		X
Governance & Ethics Review	X	X	X	
IT Security Rapid Assessment & INSR	X	X	X	
Cash & Liquidity Management Review	X	X	X	
Disability Hearings and Contested Cases Review	X	X	X	
Investment and Risk Monitoring and Reporting Review	X	X		X
Financial Reporting Process Review	X	X	X	X
Investment Consultant Selection and Evaluation	X			X
Communications and Community Relations Review		X	X	X
Human Resources - Personnel Development & Retention Review		X	X	
Cloud Risk and Security Assessment - Phase 1	X	X	X	
Benefit Estimates & Final Benefit Calculation Processing Review			X	
Employer Communication & Reporting Review	X	X		X
Cloud Risk and Security Assessment - Phase 2	X	X	X	X
Member Enrollment & Re-Enrollment Review (2024)	X	X	X	X

*No observations were noted in the Investment Governance Structure & Oversight Review.

Issued Reports Finding Status

The following represents a summary of the recommendations from the respective issued and final reports, with targeted implementation dates and a brief status **provided by management**. For all reports issued in 2019 (starting with the Financial Reporting Process Review) and on a go-forward basis, IA will track recommendations for all findings ("High", "Medium", and "Low"). Once recommendations are considered "cleared", they will be removed from this status tracking.

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
IT Security Rapid Assessment & Internal Network Security Review				
Note: The progress and status of **Finding 2** of this review is tracked through the **Cloud Risk and Security Assessment Phase 1 - Finding 3** due to overlapping recommendations. The clearing of the recommendations in **Finding 3** will also clear **Finding 2**.				
Finding 6 – A number of instances were identified where a Man-in-the-Middle ("MitM") attack is possible, allowing an intruder to secretly relay and possibly alter the communications between two parties, as well as to gain potentially elevated access in an unauthorized manner.	Management should evaluate the benefits of adding a Security Information and Event Management ("SIEM") system or similar form of network monitoring system to detect network sniffing and Server Message Block ("SMB") relay attacks. Using NTLM v2 hashing can lower the risk of these types of attacks against the network, but does not prevent sniffing.	High	June 2017 (Revised #1 Target Date: December 2017) (Revised #2 Target Date: December 2020) (Revised #3 Target Date: December 2021) (Revised #4 Target Date: December 2022) (Revised #5 Target Dates: September 2023, TBD) (Revised #6 Target Date: June 2024) Revised #7 Target Date: TBD)	**Outstanding – Overdue** – ERS is working with a Virtual Chief Information Security Officer (vCISO). Due to the significant number of vacancies in the I/S branch. Target Date is TBD for implementation of SIEM / Managed Detection and Response (MDR) solution and evaluation of the Server Message Block (SMB).

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
Finding 8 – There is no formal Software Development Lifecycle ("SDLC") or Change Management policy in place to govern changes in the production environment and related security impacts.	The ERS should create a risk framework that rates each development/engineering project as well as system change. The risk framework should factor in regulatory and customer commitments and requirements as they relate to IT security. The assigned risk rating to each project or change would then dictate the level of security considerations to be incorporated. Formalized change policies and procedures should be established as well to address segregation of duties risks.	Moderate	June 2017 (Revised #1 Target Date: December 2021) (Revised #2 Target Date: September 2022) (Revised #3 Target Date: June 2024) (Revised #4 Target Date: TBD)	**Outstanding – Overdue** – Due to the significant number of vacancies in the I/S branch, Target Date is TBD for ERS administrative governing policies and a schedule for the finalization of I/S policies will follow.
Cash & Liquidity Management Review				
Finding 1 – There is no formal cash management framework. While there are some elements of a cash management framework in place, based on industry standard resources reviewed, key features of cash management are missing.	Management should develop a formal cash management framework including the following elements: 1) An organization-wide cash management policy, 2) Implementation of software to assist in preparing formal cash forecasts, 3) Definition of key components of cash forecasting, and	Moderate	September 2017 (Revised #1 Target Date: June 2020) (Revised #2 Target Date: December 2021) (Revised #3 Target Date: December 2024) (Revised #4 Target Date: December 2025)	**Outstanding – Overdue** – Funding request was not submitted for FY2025; will submit for FY2026. Although not submitted for FY2025, ERS will still pursue procurement and alternatives for consultant and implementation of software as described in previous comment status to

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
	4) Establish reporting protocols.			meet target date of December 2025. ERS will seek to procure a third-party consultant. Once procured, a third-party consultant will be able to assist the Accounting Branch and address this finding recommendation. The following estimated timing is conservative and based on prior experiences by the ERS related to the budget approval process. (Note: timing had to be adjusted/postponed due to change in State Administration (e.g. Governor, etc.); ERS & other agencies were asked to not submit any budget requests to keep budget "static" until new Administration was on board.

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
Finding 2 – There is no formal process or methodology in place to determine the optimal monthly cash reserve that meet immediate cash obligations and also maximize higher earning investments.	Accounting should establish specific guidelines for evaluating the cash reserve, such as: 1) Frequency of evaluation, 2) Line items to be reviewed for adjustment, 3) Threshold amounts, 4) Triggering events that could result in immediate change, and 5) Investing temporary surpluses productively.	Moderate	September 2017 (Revised #1 Target Date: June 2020) (Revised #2 Target Date: December 2021) (Revised #3 Target Date: December 2024) (Revised #4 Target Date: December 2025)	**Outstanding – Overdue** – Refer to status comment for Finding 1 above.
Finding 3 – There is no comprehensive cash forecasting process. In addition, variance analyses and updates to line items are not made throughout the year.	ERS should: 1) Reevaluate current cash forecasting processes, 2) Establish a collaborative formal cash flow forecasting process, led by an individual with treasury experience, 3) Provide cash projections to all involved departments, and 4) Set tolerance levels of variance between actual and projected forecasts.	Moderate	September 2017 (Revised #1 Target Date: June 2020) (Revised #2 Target Date: December 2021) (Revised #3 Target Date: December 2024) (Revised #4 Target Date: December 2025)	**Outstanding – Overdue** – ERS will seek to procure a third-party consultant during upcoming FY. Once procured, a third-party consultant will be able to assist the Accounting Branch and address this finding recommendation.

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
Financial Reporting Process Review				
Finding 3 – Financial reporting policies and procedures have not been reviewed or updated since the 1990s.	The Accounting Branch should draft a set of updated policies and procedures for the financial reporting process areas. Policies and procedures should be established for the following: ▪ Annual financial audit and CAFR preparation ▪ Monthly financial statement activities ▪ Financial statement preparation and distribution ▪ Management reports (internal)	Moderate	June 2020 (Revised #1 Target Date: December 2021) (Revised #2 Target Date: December 2024) (Revised #3 Target Date: December 2025)	**Outstanding – Overdue** – ERS will seek the necessary resources to assist in the development of policies, procedures, and related training. Refer to statuses provided for the Cash & Liquidity Management Review related to the timing of obtaining a third-party consultant.
Finding 4 – Accounting policies and procedures have not been adjusted to maintain alignment with the changing Investment Policy and shifts in the investment portfolio.	The Investment Office should actively involve and discuss potential investments with the Accounting Branch. The Accounting Branch should develop the appropriate policies, procedures and controls to align with any shifts in the investment portfolio. Management should also consider sending both Investment Office and qualified	Moderate	June 2020 (Revised #1 Target Date: December 2021) (Revised #2 Target Date: December 2024) (Revised #3 Target Date: December 2025)	**Outstanding – Overdue** – Draft policy template received from KMH. Detailed policies and procedures may require funding for necessary resources to assist in the development of policies, procedures, and related training as part of 2024 Legislative Session.

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
	Accounting Branch personnel to on-site due diligence visits for select high valuation risk investments.			Refer to statuses provided for the Cash & Liquidity Management Review related to the timing of obtaining a third-party consultant.
Finding 5 – Work report data files are consistently submitted by the employer groups with errors and in improper formatting. ERS resources, particularly the Accounting Branch and EC&B, are spending a significant amount of time correcting these errors which leads to delays in financial reporting.	ERS is meeting with representatives of employer groups to discuss improving reporting. In addition to this effort, ERS should complete the following: ■ Developing IT scripts specific to individual employer submissions that may be able to identify common errors. ■ Establishing an ERS help-line to coordinate training and support for different employer groups. Also, ERS can go to the individual employer work locations to conduct training on work report data files.	Moderate	December 2020 (Revised #1 Target Date: December 2022) (Revised #2 Target Date: December 2024) (Revised #3 Target Date: TBD) **Progress is evaluated on an on-going basis and it is unrealistic to determine a due date. See status comments.	**Outstanding – Overdue** – ERS staff (from various branches) continues to meet with State and county employer agencies to determine/update what is included in compensation for ERS benefits; to provide information on reporting processes and computer requirements; etc. The results of these findings will probably require legislative changes for the definition of ERS eligible compensation. ERS Work Report staff continues to utilize excel formulas and SQL queries to help analyze data files received and provide feedback to employers. Staff training is ongoing as

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
				changes are made to the data files received. It is unrealistic to determine the final implementation date given the results are highly dependent on employers implementing changes to the payroll and personnel systems to accurately and consistently report information to ERS; or for ERS to modify its pension system. These systems require approval of funding from legislature and city councils.
Human Resources – Personnel Development and Retention Review				
Finding 2 – The ERS can improve its succession planning processes by incorporating "Succession Management" into their plans.	IA recommends the ERS incorporate Succession Management into their existing succession planning processes. Key components of a succession management approach should include: 1) Improved documentation around preparation, planning, and development improvement steps	Medium	December 2021 (Revised #1 Target Date: December 2022) (Revised #2 Target Date: December 2023) (Revised #3 Target Date: March 2024) (Revised #4 Target Date: December 2024)	**Outstanding – Overdue** – For Succession Management, each Branch Chief will identify the necessary skills/experience/knowledge required for those identified as their potential successors and improve documentation around developmental planning, etc.

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
	2) Detailed developmental planning (training, coaching and mentoring) 3) Knowledge transfer and management practices			For the Accounting Branch, a succession plan has not been developed yet. The Accountant V position established in July 2023 was filled on October 1, 2024.
Cloud Risk and Security Assessment - Phase 1 Review				
Finding 1 – Identity, Credential, and Access Management controls have not been fully established to address cloud risk and security post implementation.	To reduce risks, we recommend the following: 1. Establish user access policies, procedures, business processes, and technical measures for identity, entitlement, and access management. 1.1. Establish a policy that documents access requirements, role-based access controls, and the IAM lifecycle for individuals accessing IT infrastructure i.e. the use of an access identity tool. 1.2. Establish procedures that ensure provisioning of user access is authorized by the	Medium	September 2022 (Revised #1 Target Date: June 2024) (Revised #2 Target Date: TBD)	**Outstanding – Extended Original Target Date –** 1. - 1.3. Due to the significant number of vacancies in the I/S branch, Target Date is TBD for ERS administrative governing policies and a schedule for the finalization of I/S policies will follow. 1.4. Previously completed/responded to by I/S. 2. The policy must first be developed in detail for these procedures (refer to response 1.0 of this section). 3. Previously completed.

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
	organization's management prior to access being granted, and is appropriately restricted as established in the policies and procedures. 1.3. Establish procedures that ensure timely de-provisioning of user access to data, applications, infrastructure systems, and network components. 1.4. Implement a federated identity management solution for on-premise and cloud environments to avoid the use of discrete accounts. Consider Azure Active Directory pass through authentication (PTA) for management of split on-premise and cloud authentication. 2. Perform periodic user access reviews that verify			

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
	that the organization is adhering to the rule of least privilege based on job function and that any terminated employees who have had access are removed. For any identified access violations, remediation must be performed and follow established user access policies and procedures. 2.1. Verify user access to organization audit tools, diagnostic and configuration ports, and utility programs capable of overriding the system is part of a periodic user access review. 3. Evaluate access points of high risk (remote, privileged access) for implementation of multi-factor authentication requirements.			

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
Finding 2 – ERS has established patching policies and configuration hardening process to ensure that security vulnerabilities are addressed. However, enhancements are needed to ensure that these processes are matured for the cloud environment, especially for the hardening of Azure machine images and patching of Azure Linux systems.	We recommend the following to enhance and help establish patching procedures for workstations and servers: 1. As ERS completes its Azure data center region change from Virginia to Arizona, work with Microsoft to understand their capabilities to assist with regular patching and vulnerability management. Establish an automated process to install vendor patches on at least a monthly basis for both installed applications and operating systems, including Linux. 1.1. Evaluate solutions to identify missing patches/vulnerabilities (vulnerability scanning). Consider Azure Defender for Servers. 1.2. Evaluate solutions to deploy patches for the Azure environment, including Azure Automation Update Management.	Medium	September 2022 (Revised #1 Target Date: June 2024) (Revised #2 Target Date: TBD)	**Outstanding – Extended Original Target Date –** 1 and 2. Fiscal Year 2024, I/S branch procured Microsoft services to address these items. Pending vendor's response. 3. - 6. Due to the significant number of vacancies in the I/S branch, Target Date is TBD for ERS administrative governing policies and a schedule for the finalization of I/S policies will follow.

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
	2. Implement or establish a threat intelligence function to monitor for newly announced vulnerabilities and released patches, and identify mitigating steps to fill the gap between the time a vulnerability is announced (known as '0-day') and the time a patch is provided by the vendor. 3. Establish change control procedures that address emergency patching of critical resources, and various vulnerability scenarios must be created to ensure vulnerability remediation activities are properly documented and reviewed by technical teams prior to being mitigated, validated, and closed. 4. Establish a formal risk management procedure to document unpatched vulnerabilities (e.g. risk acceptance sign-off by management), complete with tracking and periodic review.			

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
	5. In coordination with the Office of Enterprise Technology Services, perform vulnerability scans of the internal and external networks of the production environment quarterly and non-production environment monthly to identify known vulnerabilities, missing patches, and misconfigurations. 5.1. Implement a vulnerability management policy identifying timelines for patching based on risk level. 6. Evaluate usage of a hardened VM image from the Azure marketplace (e.g. CIS). After implementation is complete, management should establish procedures to monitor any changes to parameters or configurations that could lead to configuration drift.			

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
Finding 3 – Data Security policies are not in place to address the labeling, handling, and security of data and objects that contain data. Additionally, Encryption and Key Management policies and procedures are not fully established for the management of cryptographic keys in the service's cryptosystem. **Finding 2 from IT Security Rapid Assessment & Internal Network Security Review (Outstanding – Overdue)** – Management does not have formal data classification policies and procedures in place to apply a risk-based approach towards handling, storing and transmitting of sensitive data other than personal information.	ERS should establish a data classification policy or procedure to identify types/classes of data and aid in handling data appropriately. The following should be incorporated into the data classification policy: ▪ A definition of the types of data present in the ERS environment (e.g., PII, member data, sensitive/confidential). ▪ Data security requirements for each type of data. Requirements should be documented and maintained to give clear guidance on how to handle various data types (e.g., requirements for encryption, retention, handling, storage, transmission, destruction). ▪ Procedures should be documented for labeling, handling, and security of data and objects which contain data. Mechanisms for label inheritance shall be implemented for objects that	Medium	September 2022 (Revised #1 Target Date: June 2024) (Revised #2 Target Date: TBD)	**Outstanding – Extended Original Target Date –** ERS initially started a data analytics group in 2023, but activity has been delayed due to other competing priorities. This group is led by the Chief Compliance Officer. Due to the significant number of vacancies in the I/S branch, target date is TBD for the finalization of I/S policies.

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
	act as aggregate containers for data. Also establish an encryption and key management policy or procedure to ensure keys are appropriately secured, stored, and rotated, and additional key management activities are carried out. The following should be incorporated into the encryption and key management policy: ▪ Cryptographic keys, including TLS certificates, used to protect access to data and encrypt data at rest must be rotated periodically. Credentials and cryptographic keys must not be embedded or stored in source code or distributed in public facing repositories.			
Finding 4 – Logging and Monitoring procedures around security events, capacity resources, virtual machine integrity, and network traffic have not been fully defined.	Logging and monitoring policies and procedures should be established and tools should be implemented. As ERS completes its Azure data center region change from Virginia to Arizona,	Medium	September 2022 (Revised #1 Target Date: June 2024) (Revised #2 Target Date: TBD)	**Outstanding – Extended Original Target Date –** ERS is working with a Virtual Chief Information Security Officer (vCISO). Due to the significant number of

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
Additionally, a formal periodic review of logging configurations has not been established.	the following areas should be considered when working with the vendor to implement logging and monitoring tools: ▪ Any changes made to cloud instances must be logged and an alert raised regardless of their running state (e.g., dormant, off, or running). The results of a change or move of an image and the subsequent validation of the image's integrity must be immediately available to customers through electronic methods (e.g., portals or alerts). ▪ Capacity and necessary resources should be planned for, measured, and monitored to deliver the required system performance in accordance with ERS expectations. ▪ Network environments and virtual instances should be designed and configured to restrict and monitor traffic			vacancies in the I/S branch, target date is TBD for implementation of SIEM / Managed Detection and Response (MDR) solution.

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
	between trusted and untrusted connections. ▪ Centralize the use of logging solutions (Azure Log Analytics and SolarWinds) to better integrate and use the results. Restrict the ERS Systems team's access to the audit logs appropriately (e.g., read-only).			
Finding 5 – Governance and risk management requirements for the cloud environment have not yet been established. Requirements should be established based on ERS risk profile and industry best practices. Once requirements are defined, compliance should be monitored on an ongoing (at least annual) basis.	Foundational governance and risk management requirements should be established to include the following: ▪ Defining a Risk Management Policy that defines how ERS will identify, assess, track/monitor, remediate, and address risk. ▪ Regularly (at least annually) conducting a risk assessment. Utilize industry-standard sources like NIST 800-30 to guide assessment methodology. ▪ Document a remediation plan (such as a Plan of Action and Milestones – POA&M) to address identified risks. Regularly	Low	September 2022 (Revised #1 Target Date: July 2024) (Revised #2 Target Date: TBD)	**Outstanding – Extended Original Target Date –** The I/S branch is still dealing with staff shortages. Due to the current staff shortages, ERS' priorities and current projects, this finding will be delayed. A new Target Date will be established once I/S has the resources to work on this. New Target Date is TBD.

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
	discuss with leadership on milestones and current risk register status. In addition, we recommend ERS work with their vendors to find a mutually agreed upon external time source that is used to synchronize the system clocks of all relevant information processing systems to facilitate tracing and reconstitution of activity timelines. We also recommend the IS branch work with the Procurement department to track data outages and determine thresholds where ERS may be eligible for financial compensation.			
Employer Communication & Reporting Review				
Finding 3 – Work report processing procedures are not detailed enough and do not capture the unique, detailed steps required when reviewing and processing reports for a specific employer agency. Work Reports	IA recommends that each Work Reports Team staff have formal, consistent procedures, and sufficient detail to document how they address their assigned employer's issues and	Low	December 2023 (Revised #1 Target Date: December 2024)	**Outstanding – Extended Original Target Date** – Accounting is currently working with KMH on the audit criteria and procedures to review payroll reporting from employers for

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
Team staff are also not currently cross-trained to process and review an employer agency or department they are currently not assigned to.	complexities in their review and processing of Work Reports. The Work Reports Team should develop a plan or schedule to ensure that the staff are able to cross train each other on their assigned employers and review files by using the procedures noted above.			compliance with Act 87 requirements that are effective in July 2024. Further, there is increased workload in payroll adjustments reported by employers (such as hazard pay, servicemen's act, salary adjustments and class code corrections). Accounting is also working with employers on implementing their system changes. Completing these objectives has been negatively impacted by the staff vacancy since October 2022.
Cloud Risk and Security Assessment – Phase 2				
Finding 1 – Third-Party Risk Management ERS has not defined a process to assess and monitor third parties and vendors. Therefore, ERS does not perform periodic reassessments of third parties and vendors that have access to transmit or process the organization's data.	IA recommends that management address the finding in the following ways: 1. Publish, finalize and disseminate the third-party risk management policy. Additionally, the policy should be reviewed at least annually.	High	August 2024 (Revised #1 Target Date: TBD)	**Outstanding – Extended Original Target Date** – Pending procurement of the Enterprise Risk Management, Audit, and Policy software by the Chief Compliance Officer, but activity has been delayed due to other competing priorities.

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
	2. Develop a formal third-party risk management program to provide critical insight into the effectiveness of third-party security controls.			1. Upon completion of procurement, I/S to work with ERS' Chief Compliance Officer, AG, and Administration to develop a third-party risk management policy.
				2. Upon completion of procurement, I/S to work with ERS' Chief Compliance Officer to look into obtaining services to assist ERS in developing a third-party risk management program as we do not have the expertise and/or resources necessary.
				Due to the significant number of vacancies in the I/S branch. Target Date is TBD for I/S.

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
Finding 2 – Threat and Vulnerability Management ERS has not defined a service-level agreement (SLA) for vulnerability patching. As a result, there may be high-risk vulnerabilities that are not patched in a timely manner. Our technical review of in-scope systems noted that patching was being conducted ad hoc and was not consistently performed on a monthly basis. Unpatched vulnerabilities can carry a significant risk and present attackers with additional time to exploit vulnerabilities.	IA recommends that management address the finding in the following ways: 1. Define a vulnerability SLA for vulnerability patching for all known vulnerabilities based on achievability and the organization's risk appetite. 2. Continue to work with Microsoft to conduct an Azure penetration test, and remediate any vulnerabilities identified in a timely manner. Additionally, perform penetration tests at least annually, or upon significant changes to any public-facing connectivity channels. 3. Document, develop, and deploy a golden image for Windows servers to ensure that the operating system is hardened and baseline controls are implemented.	High	June 2023, December 2023 (Revised #1 Target Dates: June 2023, December 2023, and December 2024) (Revised #2 Target Dates: December 2024 and TBD) (Revised #3 Target Date: December 2025) (Revised #4 Target Date: TBD)	**Outstanding – Overdue** – 1. ERS is working with a Virtual Chief Information Security Officer (vCISO). Due to the significant number of vacancies in the I/S branch. Target Date is TBD. 2. It is ERS' goal to perform annual penetration tests. ERS completed a Cybersecurity Operations Security Test in April 2023, as the penetration test was not an option due to resources, costs and procurement. Due to the significant number of vacancies in the I/S branch, the ETA to complete a penetration test is December 31, 2025, this date is subject to change. 3. Fiscal Year 2024, I/S branch procured Microsoft services to address these items. Pending vendor's response.

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
Finding 3 – Logging and Monitoring ERS utilizes Azure Log Analytics to collect logs for the Azure environment; however, ERS has not defined alerts or a regular log review process to identify and notify security personnel of potential threats.	IA recommends that management address the finding in the following ways: 1. Publish, finalize and disseminate the logging and monitoring policy. Additionally, review the data classification policy at least annually. 2. Develop a capital and resource plan to project future cloud capacity requirements as the organization continues to transition from on-premise to the cloud. Additionally, review this plan at least annually or upon any changes. 3. Configure Azure Monitor to alert security personnel based on defined metrics indicating risks beyond an established threshold. 4. Any changes made to cloud instances should generate an alert regardless of the running state (e.g., dormant,	High	December 2023, October 2023, and June 2024 (Revised #1 Target Date: June 2024 and TBD) (Revised #2 Target Date: TBD)	**Outstanding – Extended Original Target Date** – 1. This task is assigned to the Chief Compliance Officer, who is in the process of procuring a data classification application software. He will work in collaboration with the I/S branch to implement and manage. 2. - 4. Fiscal Year 2024, I/S branch procured Microsoft services to address these items. Pending vendor's response. Due to the significant number of vacancies in the I/S branch. Target Date is TBD for implementation. 5. Fiscal Year 2024, I/S branch procured Networking services to Monitor and Detect. I/S branch will need to work with ETS and vendor to address. Due to the significant number of vacancies in the I/S branch. Target Date is TBD for implementation.

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
	off or running). The results of a change or move of an image and the subsequent validation of the image's integrity must be immediately available to members through electronic methods (e.g., portals or alerts). 5. Use an Azure NSG to filter network traffic between Azure resources in an Azure virtual network. NSGs should not be open to all IP address ranges, as this is not best practice. ERS should set the appropriate inbound rules. Also, enable Traffic Analytics. Traffic Analytics is an Azure-native solution that enables clients to receive insights about the Azure virtual network flows.			
Finding 4 – Identity and Access Management Procedures and controls surrounding user access have been established for ensuring	IA recommends that management address the finding in the following ways:	High	June 2023, September 2023, and June 2024	**Outstanding – Extended Original Target Date** – 1. - 3. Due to the recent staff turnover and current

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
appropriate identity, entitlement and access management of all users with access to data and application interfaces; however, these procedures have not been finalized, published or disseminated, and user access reviews are not being conducted on a periodic basis. Additionally, an on-premises domain controller is utilized, and a contingency plan has not been evaluated to allow uninterrupted user access in the case of a natural disaster. Lastly, storage accounts have not been configured to restrict access	1. Publish, finalize and disseminate the identity and access management policy. Additionally, the policy should be reviewed at least annually. 2. Implement semiannual access reviews to ensure that all access is appropriate and access that is no longer needed is removed. Additionally, review user access when users resign, are terminated, change roles and/or no longer need the authorization to carry out duties for any other reason. 3. Consider moving from Active Directory to Azure Active Directory to provide continuous availability in the event of equipment failure. 4. Ensure that storage accounts restrict network access using virtual network rules and set up a private link connection for your storage accounts.		(Revised #1 Target Date: June 2024 and TBD) (Revised Date #2 Target Date: TBD)	vacancies in the I/S branch, this has been put on hold. Target Date is TBD. 4. ERS will work with our vendors to ensure that storage accounts are restricted by network access using virtual network rules and set up a private link connection for ERS storage accounts. ERS has regional failover. I/S will work with our vendor to develop a plan and test the regional failover to ensure that data is durable in the case of a complete regional outage or a disaster in which the primary region is not recoverable. Due to the significant number of vacancies in the I/S branch. Target Date is TBD for implementation.

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
	Additionally, ensure that data is durable in the case of a complete regional outage or a disaster in which the primary region is not recoverable.			
Finding 5 – Data Security and Privacy Life Cycle Management Although ERS maintains a comprehensive backup strategy for Azure cloud, ERS has yet to fully operationalize data security and privacy life cycle management controls, resulting in a lack of data understanding and ownership and indicators of encryption and data security weaknesses.	IA recommends that management address the finding in the following ways: 1. Publish, finalize and disseminate the data classification policy. Additionally, the policy should be reviewed at least annually. 2. Establish an encryption and key management policy or procedure to ensure that keys are appropriately secured, stored and rotated, and additional key management activities are carried out. 3. Update network and data flow diagrams annually or upon any changes to the environment that would impact such diagrams to	Medium	September 2023 and June 2025 (Revised #1 Target Date: June 2025 and TBD)	**Outstanding – Extended Original Target Date –** 1. I/S will work with the ERS Chief Compliance Officer, Administration, procurement and AG to finalize and disseminate the data classification policy. Estimated completion date: June 30, 2025 2., 3., 5., and 6. Due to the recent staff turnover and current vacancies in the I/S branch, this has been put on hold. Target Date is TBD. 4. I/S will work with the ERS Chief Compliance Officer, Branch Chiefs & Administration to develop a data responsibility matrix. Estimated completion date: June 30, 2025

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
	ensure that they are current and up to date. 4. As ERS continues to migrate servers that are still on-premises over to Azure cloud, a data responsibility matrix should be developed to define data owners and the data records for which they are responsible for. 5. Enable "Adaptive application controls for defining safe applications" on the virtual machines. 6. ERS should enable Purge Protection and Soft Delete. Purge Protection and Soft Delete are features that safeguard against losing key access.			
Member Enrollment & Re-Enrollment Process Review				
Finding 1 – There is a shortage of SSS staffing and technology resources and lack of policies and procedures, resulting in a backlog of member enrollment forms, including ERS-1 and ERS Form 1A forms, that have not been imaged and indexed into the	IA recommends that management address the above finding in the following ways: 1. Develop well-documented policies and procedures for imaging and indexing documents into the PAS.	High	April 2025 (Latest Completion Date)	**Outstanding – Not Overdue –** 1. No employees have been brought on board to fill vacancies as of the last update. The SSS section remains 62.5% fully staffed as vacancy challenges

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
PAS. This backlog extends as far back to members who were enrolled over 12 months prior.	2. Update position descriptions for Office Assistants I and II to include document imaging and indexing and provide training. 3. Reduce the current backlog of enrollment form imaging by assigning more internal staff resources to assist with imaging into the PAS. 4. Procure an additional specialized scanner that is compatible with the PAS.			persist. SSS has already experienced several rejections from candidates due to the lengthy hiring process and candidates finding other jobs or they ended up not following through with job offers by not showing up for the first day of work. 2. Adobe discussions are on-going and this may be critical in transitioning the ERS to more paperless versus paper based business process. The development of bar-coded documents and online submission of documents would be extremely helpful in reducing the inflow of documents needing manual document processing. 3. Through the advice of the CCO and Administration, the target date for the development of policies and procedures with the assistance of CCO may need to be extended until

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
				April 2025 as the migration to Velocity will take precedent over existing obligations. It is hopeful that the transition to Velocity (and or Adobe) will greatly change the way the ERS does business.
				4. Redescribing the job descriptions of the OA III and OA IV positions are ongoing.
				5. This item has been initiated. An Indexing and Scanning prototype User Guide has been created and will be updated to the current state. However, the installation of the newly purchased scanners, may change the existing scanning process and adjustments to the scanning user guide may be necessary.
				6. SSS has decided to use overtime for existing employees as a temporary solution to image and index backlogged ERS1 and

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
				ERS1a (enrollment documents). Request to hire temporary workers (89 day hires) has been proffered and initiated through administration. An alternative solution may be an issuance of an RFP to hire an outside contractor to complete parts of the imaging process. 7. As of this writing (September 2024), the scanners have been purchased but not yet installed.
Finding 2 – A lack of file management policies and procedures resulted in significant delays in the ERS locating and providing requested enrollment forms. Management was unable to provide one or more enrollment forms for approximately 40% of the members requested.	IA recommends that management address the above finding in the following ways: 1. Consult with the State of Hawaii Records Management Branch to determine an efficient and effective process and controls to manage ERS' records. 2. Develop well-documented policies and procedures for file management,	High	June 2025 (Latest Completion Date)	**Outstanding – Not Overdue –** Refer to status comment for Finding 1 above.

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
	organization and storage. These should include the file management process designed after consulting with the State of Hawaii Records Management Branch.			
Finding 3 – Management does not have data integrity control activities in place to review and verify member enrollment data information input into the PAS, exposing the ERS to an increased risk of not detecting data input errors.	IA recommends that management implement the following to address this finding: RBB should develop a formal, documented review process to verify the accuracy of member enrollment information input into the PAS. • RBB should perform, at a minimum, a periodic review on a sample basis (i.e., weekly/bi-monthly review of a sample of new and return to work members). • The reviewer should document the list of members reviewed, noting any errors identified, confirming that the review was completed and errors communicated with the RBB	Medium	December 2024 (Revised #1 Target Date: March 2025)	**Outstanding – Extended Original Target Date –** 1. Go live for PIF may be delayed due to processing issues from the files & PAS. Still working on conversion files (Block 13). To go live, will need another block of conversion files to bring it to current. Possible estimated completion date: March 2025. 2. QR code technology being discussed. Potential vendor did assessment and proposed a plan in September 2024. 3. This step is dependent on PIF go live (item #1). 4. Current enrollments still being processed with interim method.

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
	Office Assistant for correction and follow up.			5. Procedures of enrollment process are being worked on.
Finding 4 – Management does not have a control activity in place to verify that access to ERS' active directory and applications are properly disabled for all terminated employees, resulting in terminated employees inappropriately listed as current users per the PAS user access report.	IA recommends that management address the above finding by: 1. Implementing a formally documented, periodic (i.e. quarterly, semi-annually, annually) terminated user access review of active directory and applications, specifically the PAS, to detect terminated employees that may have access to a system/application. 2. Developing an employee termination workflow process when the help desk system goes live with steps to disable/remove access to all systems and applications. Employee access should be fully disabled immediately upon termination.	Medium	December 2024	**Outstanding – Not Overdue –** I/S will start with an annual review and work towards a semi-annual review. The offboarding workflow in the ERS's helpdesk solution is in development and should be completed and pushed to production and staff trained by the end of December 2024.

Issued Reports Finding Status (continued)

FINDING	RECOMMENDATION	RATING	TARGET COMPLETION DATE(S)	STATUS – PROVIDED BY MANAGEMENT
Finding 5 – There are currently no documented policies and procedures or any control activities in place to validate the Return to Work Transfers Log's completeness and accuracy, resulting in an incomplete listing of return to work members on the Return to Work Transfers Log.	IA recommends that management address the above finding in the following ways: 1. Develop well-documented policies and procedures for updating and validating the completeness and accuracy of the Return to Work Transfers Log. 2. Periodically reconciling the Return to Work Transfers Log with a PAS report of return to work members to verify completeness and accuracy of the log.	Medium	November 2024, February 2025 (Revised #1 Target Date: November 2025)	**Outstanding – Extended Original Target Date** – 1., 2. & 5. are dependent on PIF go live which will be delayed. Updated completion date: Fall 2025. 2. In the interim before PIF go live, will use comparison CCR report generated by IS to ensure completeness & accuracy of the log. Report is being worked on by IS & RBB. 3. RTW reviews are being handled using interim process. 4. Variances are being communicated to the Employers.

DRAFT – Tentative and Preliminary

Employees' Retirement System
INTERNAL AUDIT REPORT

Employees' Retirement System
of the State of Hawaii

FOLLOW-UP REVIEW

Issue Date: September 2024
Report Number: STA011-24-XX

Table of Contents

EXECUTIVE SUMMARY

Executive Summary

Background

- This Follow-Up Review was added to the Internal Audit Plan in order to validate the accuracy of finding updates provided by ERS Management, specifically findings and associated recommendations reported as "*cleared*".

- IA has been performing internal audit reviews of various ERS auditable areas dating back to 2012 and following each of these reviews, have issued a report to ERS Management and the ERS Administrative & Audit containing the findings, associated recommendations, and improvement opportunities when applicable.

- Status updates on report findings and recommendations are provided by the responsible ERS manager on a periodic basis for IA's report to the Administrative & Audit Committee. IA did not validate the accuracy of these updates and relied upon each manager to provide factual status information.

- The last Follow-Up Review was completed in 2021. For the 2021 review, IA selected five reports, issued between 2012 and 2017, comprising a total of 14 "*cleared*" findings. Of the 14 findings reviewed, all recommendations were properly implemented by the responsible manager and none were deemed "partially" implemented" or "not implemented" nor required additional improvement recommendations.

Executive Summary

Project Objectives

- The objectives of this 2024 review were to:
    - Assess the progress responsible managers made in implementing recommendations suggested by IA for previously "cleared" findings.
    - Validate whether cleared finding recommendations have in fact been implemented through inquiry with responsible managers and inspection of supporting documents.
    - For finding recommendations deemed partially or not implemented, understand the reasons why it was not implemented and provide management with updated resolutions or recommendations to enhance effectiveness and efficiency, where applicable.

Overall Assessment and Conclusion

- Management has implemented or partially implemented all finding recommendations deemed "cleared".
- IA selected 6 reports for this review comprising a total of 10 "*cleared*" findings. Of the 10 findings reviewed, 6 findings and associated recommendations were properly "implemented" by the responsible manager and 4 were deemed "partially implemented" and required additional recommendations.
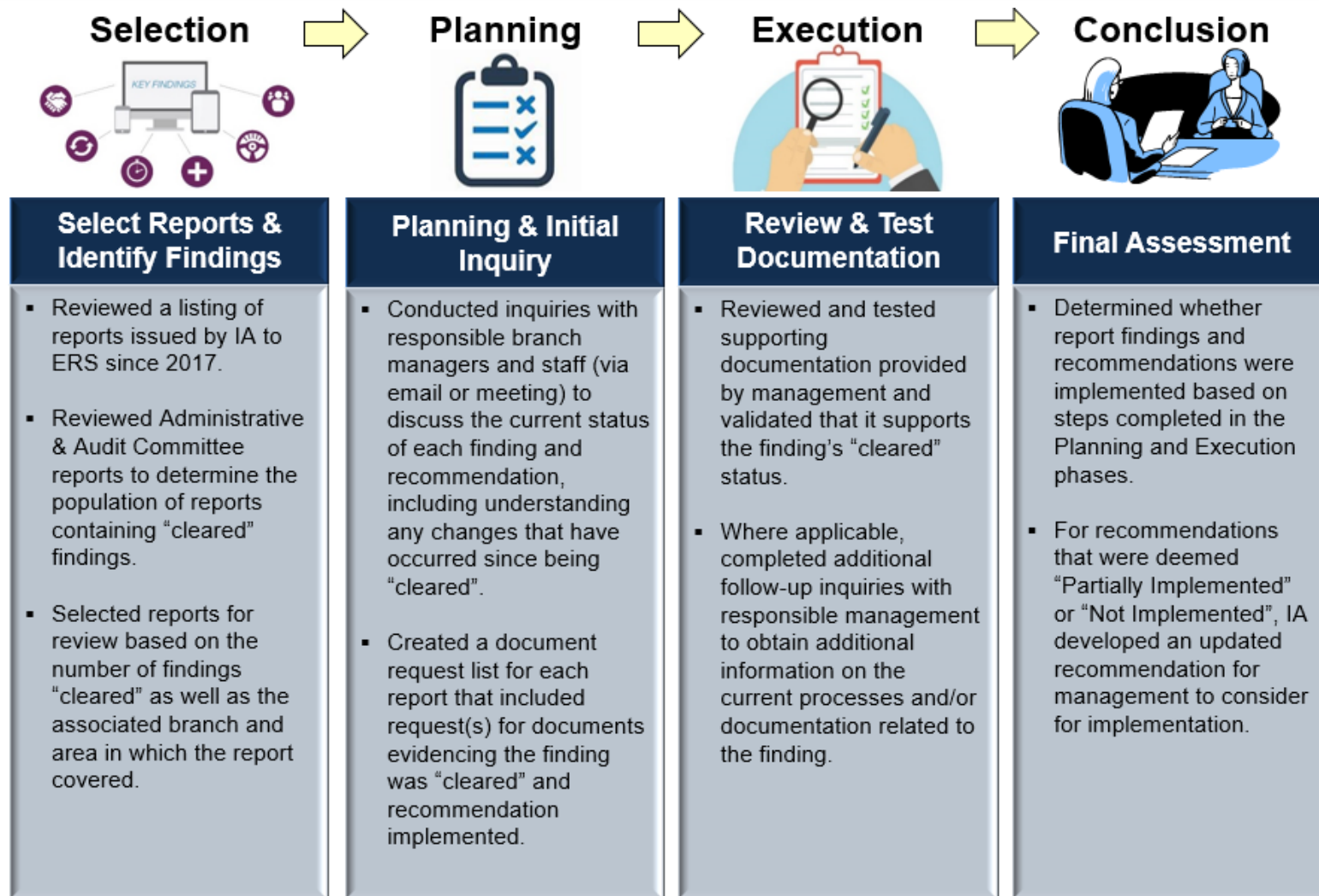
FOLLOW-UP REVIEW PROCESS

Follow-Up Review Process – Overview

Selection ➡ Planning ➡ Execution ➡ Conclusion

Select Reports & Identify Findings

- Reviewed a listing of reports issued by IA to ERS since 2017.

- Reviewed Administrative & Audit Committee reports to determine the population of reports containing "cleared" findings.

- Selected reports for review based on the number of findings "cleared" as well as the associated branch and area in which the report covered.

Planning & Initial Inquiry

- Conducted inquiries with responsible branch managers and staff (via email or meeting) to discuss the current status of each finding and recommendation, including understanding any changes that have occurred since being "cleared".

- Created a document request list for each report that included request(s) for documents evidencing the finding was "cleared" and recommendation implemented.

Review & Test Documentation

- Reviewed and tested supporting documentation provided by management and validated that it supports the finding's "cleared" status.

- Where applicable, completed additional follow-up inquiries with responsible management to obtain additional information on the current processes and/or documentation related to the finding.

Final Assessment

- Determined whether report findings and recommendations were implemented based on steps completed in the Planning and Execution phases.

- For recommendations that were deemed "Partially Implemented" or "Not Implemented", IA developed an updated recommendation for management to consider for implementation.

The scope of our review did not include:
- Re-auditing the areas covered in each report.
- Following-up on the status of high, moderate, and low rated findings and recommendations deemed not "cleared" via Administrative & Audit Committee Meeting finding status updates most recently presented on June 25, 2024.

Reports Selected and Number of Findings

The table below identifies the IA reports selected for this review, the total number of findings in each report, and the number of findings deemed as "cleared" via Administrative & Audit Committee Meeting finding status updates. Please note this review only included a review of "cleared" findings, which prior to reports dated before 2020, encompasses only high and moderate rated findings since status updates for low rated findings were not previously tracked.

Review Report Name	Report Date	Number of Findings	Number of "Cleared" Findings
Investment and Risk Monitoring and Reporting Review	June 2017	3	2
Financial Reporting Process Review	April 2019	5	2
Investment Consultant Selection and Evaluation Review	September 2019	3	2
Communications and Community Relations Review	February 2020	1	1
HR – Personnel Development & Retention Review	October 2020	2	1
Benefit Estimates & Final Benefit Calculation Processing Review	May 2021	2	2

FINDINGS REVIEWED AND SUMMARY OF RESULTS

Summary of Follow-Up Review Results

This table identifies the finding numbers evaluated from each review. The numbers align with the finding numbers in the corresponding IA review report. The "Current Status" column indicates whether the finding and recommendation was deemed "Implemented", "Partially Implemented", or "Not Implemented" following IA's review and inspection.

Finding Number	Date Originally "Cleared" [1]	Current Status
Investment and Risk Monitoring and Reporting Review		
1	August 2019	Partially Implemented
2	August 2019	Partially Implemented
Financial Reporting Process Review		
1	September 2020; February 2021	Implemented
2	February 2020	Implemented
Investment Consultant Selection and Evaluation Review		
1	September 2020	Partially Implemented
3	September 2020; February 2021	Implemented
Communications and Community Relations Review		
1	September 2020	Implemented
HR – Personnel Development & Retention Review		
1	February 2021	Partially Implemented
Benefit Estimates & Final Benefit Calculation Processing Review		
1	February 2022	Implemented
2	February 2022	Implemented

[1] Date Originally "Cleared" is the date in which the finding is reported as "cleared" via finding status updates in IA's Administrative & Audit Committee Meeting Update Report.

INVESTMENT AND RISK MONITORING AND REPORTING REVIEW

Finding #1 – Investment and Risk Monitoring and Reporting Review

Finding Summary	Finding Rating	Moderate

The Investment Office does not have a documented reporting and monitoring framework for private equity investments as required by the Investment Policy.

	Follow-up Review Status	Partially Implemented

Report Recommendation

	Date Originally "Cleared"	August 2019

The Investment Office should draft a comprehensive private equity monitoring and reporting program. Documented procedures should then be created to ensure compliance. The reporting program should include, but not be limited to monitoring valuation methods; rotating, in-depth reviews of underlying partnerships; comprehensive evaluation of private equity "exits"; and should require concrete deliverables.

	Responsible Manager(s)	Chief Investment Officer

Management's "Cleared" Status Response

On May 15, 2018, staff recommended and Trustees approved a policy to address the "Internal Audit item related to Private Equity Monitoring Procedures Need Enhancement". Desktop Policy and Procedures ("Desktop P&P") were subsequently prepared and are saved in the Investment Office's shared folder.

Validation Process

Inquiry: The Private Equity program and policies have not changed and the Investment Office is leveraging its Private Equity Consultant, Hamilton Lane, for monitoring activities information but is not completed as described and performed back in 2018. The reporting and monitoring policies and procedures for all investment types, including private equity, are currently in the process of being updated to improve the uniformity across all investment officers. This includes implementing and/or updating uniform processes and documentation to be used across all investments and investment officers. The target date for completion is 2025.

Finding #1 – Investment and Risk Monitoring and Reporting Review

Validation Process

Testing: IA completed the following:
- Obtained and inspected the Board of Trustee Minutes for May 15, 2018 noting the Board's approval of revisions made to the monitoring and reporting policies of the private equity program and the Board of Trustee Minutes for September 10, 2018 noting the Investment Officer-Illiquid Markets (Private Equity) provided an oral and written presentation on the Private Equity Program Update.
- Reviewed of the "Private Equity Monitoring & Valuation Desktop P&P", dated May 15, 2018, noting the P&P set up a monitoring program and included the elements recommended in the finding:
  - The purpose section defined and documented the valuation methodology and monitoring procedure to include frequency of reviewing illiquid assets for the purpose of the reducing risk of the portfolio being valued "inaccurately".
  - The Methodology and Procedures section defines: 1. the monitoring valuation method, 2. identifying partnerships applicable for review, 3. procedures around evaluation steps for private equity "exits", and 4. required documentation and deliverables.

Recommendation

IA recommends the Investment Office consider incorporating the items mentioned in this finding recommendation to its uniform equity monitoring and reporting program currently being developed. This auditable area is currently scheduled to be reviewed by IA in 2025 or 2026 and will evaluate whether the updated program includes a documented reporting and monitoring framework.

Finding #2 – Investment and Risk Monitoring and Reporting Review

Finding Rating	**Moderate**
Follow-up Review Status	Partially Implemented
Date Originally "Cleared"	August 2019
Responsible Manager(s)	Chief Investment Officer

Finding Summary

The Investment Office has limited documented procedures on evidencing monthly and quarterly monitoring activities.

Report Recommendation

All monitoring procedures should be documented and include a "deliverable" in the form of a memorandum, completed checklist, or email acknowledgement. The Investment Office should revise their monitoring procedures to provide an appropriate deliverable for monthly and quarterly monitoring. These deliverables should be commensurate with the frequency and depth of the monitoring being performed.

Management "Cleared" Response

The Investment Office has revised procedures, reviewed Policy guidelines, and removed unnecessary reports. Staff, in consultation with the consultant, developed a checklist for the Liquid Market Monitoring Program that documents the monitoring procedures with appropriate deadlines. The checklist includes monitoring manager meetings, quarterly review of reports, and annual review of ADV Part II commencing January 1, 2018.

Validation Process

Inquiry: The Liquid Market Manager Monitoring Program checklist was used in 2018, but the Investment Office was unable to locate any tracking checklists or documentation after 2018. The reporting and monitoring policies and procedures for all investment types, including private equity, are currently in the process of being updated to improve the uniformity across all investment officers. This includes implementing and/or updating uniform processes and documentation to be used across all investments and investment officers. The target date for completion is 2025.

Finding #2 – Investment and Risk Monitoring and Reporting Review

Validation Process

Testing: IA reviewed the "2018 Liquid Markets Manager Monitoring" checklist spreadsheet, maintained by the investment specialist staff, noting the checklist contained monitoring of 19 investment managers in Traditional Growth, Stabilized Growth, Principal Protection, and Real Return classes. An investment specialist was assigned to each manager in order to monitor completion of activities including manager attendance at board meetings (every three years), staff meetings (every year), and routine due diligence meetings (every two years). There were also four columns used to track each quarter of reporting requirements. IA staff noted all four columns for all strategic class/managers were initialed by their respective, assigned investment specialist staffer indicating the reporting requirements were fulfilled.

Recommendation

IA recommends that the Investment Office consider incorporating the items mentioned in this finding recommendation to its uniform equity monitoring and reporting program currently being developed. This auditable area is currently scheduled to be reviewed by IA in 2025 or 2026 and will evaluate whether the updated program includes documented procedures on evidencing monthly and quarterly monitoring activities.

FINANCIAL REPORTING PROCESS REVIEW

Finding #1 – Financial Reporting Process Review

Finding Summary	**Finding Rating**	**High**

The Accounting Branch lacks sufficient human resources in terms of both the number of personnel and the skill sets of those personnel.

Report Recommendation

The positions currently filled by RBB (formerly EC&B) staff on a temporary, rotating basis, should be converted to permanent, full-time Accounting Branch positions. The Accounting Branch should develop and implement a training and development program for key accounting personnel to ensure adequate skill sets are maintained for evolving accounting rules and technical accounting and financial reporting areas.	**Follow-up Review Status** — Implemented **Date Originally "Cleared"** — September 2020; February 2021 **Responsible Manager(s)** — Accounting Manager

Finding Rating	**High**
Follow-up Review Status	Implemented
Date Originally "Cleared"	September 2020; February 2021
Responsible Manager(s)	Accounting Manager

Management "Cleared" Response

The two temporary, rotating positions have been converted and filled as part of the accounting work report team. Formal training and development have been developed for new employees. Management will assess whether training plans need to be developed for experienced staff as most have already completed all necessary training to fulfill their roles and responsibilities.

Validation Process

Inquiry: The Accounting Manager confirmed that two positions on the accounting work report team were filled in 2020. Currently, there is one vacancy on the work report team and a total of four vacancies on the Accounting team; one on the work report team; one in disbursements and benefits; one new position for an Accountant V (Investments); one for a Secretary II position. Training plans have been developed for majority of Accounting staff with plans pending for the new Accountant V position and procurement and secretary positions.

Finding #1 – Financial Reporting Process Review

Validation Process

Testing: IA reviewed two training and development plans, one for an Accountant IV and one for an Accountant II. The training plans utilized the templates previously provided by IA to assist ERS with the recommendation implementation. In both plans, the short term and long term objectives were defined. The training areas included real estate pooled funds, performing confirmations and schedules, navigating bank portals and creating reconciliations, and processing and reviewing V3 configurations and work reports.

Finding #2 – Financial Reporting Process Review

Finding Summary	Finding Rating	Moderate

The year-end financial reporting is completed by the Accounting Manager without review. The Accounting Supervisors have few delegated responsibilities related to the preparation of the financial report.

	Follow-up Review Status	Implemented

Report Recommendation

The Accounting Branch should consider shifting and delegating certain financial report responsibilities from the Accounting Manager to Accounting Supervisors such as accrued payables, fixed asset rollforward and reconciliation, accrued securities lending income, "Gross up" LP values, and MD&A and Footnotes. The delegation will also require the development and implementation of additional training and skill set development resources. The Accounting Manager should also perform secondary reviews.

	Date Originally "Cleared"	February 2020
	Responsible Manager(s)	Accounting Manager

Management "Cleared" Response

The Accounting Manager has shifted and delegated 50% of the financial reporting responsibilities to the Accounting Supervisors. The Accounting Manager has also begun performing secondary reviews of the financial reports.

Validation Process

Inquiry: The Accounting Manager noted the tasks and responsibilities have been delegated down to the Accounting Supervisors. Payables, payroll, and security lending tasks have been delegated down to the Accounting Staff. In 2024, the Accounting Branch is working on developing training on specific accounting areas and procedures, so further tasks can be assigned to other Accounting Staff. The Accounting Manager still owns the fixed asset rollforward and reconciliation and MD&A and footnotes.

Finding #2 – Financial Reporting Process Review

Validation Process

Testing: IA completed the following:

- Reviewed screenshot evidence from the FY2023 Audit of responsibilities being owned by other Accounting staff. The PBC list included Accounting Supervisors as responsible individuals for items such as journal entries, reconciliations, bank statements and valuations. Additionally, screenshots of the investment commitments file evidence a Accounting Supervisor prepared and edited the file for the FY2023 Audit.
- Reviewed the FY2022 PBC list and noted a majority of the requests included Accounting Supervisors as the responsible individuals.
- Inspected five journal entries related to FY2023 financials evidencing delegation down to Accounting staff. Entries were prepared by Accounting staff and reviewed by Accounting Supervisors, not the Accounting Manager. Entries were related to investments, payroll accruals, and pension adjustments.

INVESTMENT CONSULTANT SELECTION AND EVALUATION REVIEW

Finding #1 – Investment Consultant Selection and Evaluation Review

Finding Summary	Finding Rating	Moderate
Certain procurement compliance requirements were not met or properly reviewed; including the requirements listed in the Request for Proposals ("RFP") and HAR 3-122.	**Follow-up Review Status**	Partially Implemented

Finding Summary

Certain procurement compliance requirements were not met or properly reviewed; including the requirements listed in the Request for Proposals ("RFP") and HAR 3-122.

Report Recommendation

1. Management should develop formalized procedures or a checklist around proposal and contract reviews to ensure mandatory requirements are completed prior to the contract award.
2. Form SPO-044 from the Hawaii State Procurement Office should be completed to identify evaluation committee members.
3. The Contract Administrator of the procurement should also be a member of the evaluation committee.
4. The RFPs should include list a of designated ERS employees that offerors can communicate with other than the Procurement Officer during the proposal process.

Finding Rating	**Moderate**
Follow-up Review Status	Partially Implemented
Date Originally "Cleared"	September 2020
Responsible Manager(s)	Accounting Manager, Deputy Executive Director

Management "Cleared" Response

The quality assurance checklist presented by KMH has been implemented for procurements. Management has been using Form SPO-044 on new procurements. The Contract Administrator is listed as a member of the evaluation committee to be in compliance with HAR 3-122-45.01. New RFPs included a list of designated ERS employees whom offerors can communicate with during the proposal process.

Finding #1 – Investment Consultant Selection and Evaluation Review

Validation Process

Inquiry: The quality assurance "checklists" were not fully implemented for non-investment procurements, but are used by the Investment Office. The SPO-044 form has not been formally used, but evaluation committee members were clearly identified for ERS' procurements.

Testing: IA noted the following:
- A completed quality assurance "checklist" could not be provided by the Accounting Manager.
- IA requested the SPO-044 listing evaluation committee members for RFP 2020-01 and another recent example. Per the Accounting Manager, these forms could not be found.
- IA reviewed RFP 2020-01 noting the CIO position was listed as the Contract Administrator, but was unable to determine whether the CIO was part of evaluation committee since the SPO-044 form listing evaluation committee members could not be found.
- IA reviewed RFP #ERSP-105 for Actuarial Services, dated March 11, 2021, noting the RFP contained a section on Communication with ERS, Pre-Bid and Offeror's questions. This section named the procurement specialist and Accounting Manager as the sole ERS points of contact for this RFP.

Recommendation

IA recommends that Management consistently use the quality assurance "checklist" for proposal and contract reviews to ensure mandatory requirements are completed prior to contract award. Also, Form SPO-044 from the Hawaii State Procurement Office should be completed when conducting competitive sealed proposals pursuant to HRS 103D-303 to ensure compliance with HAR §3-122-45.01.

Finding #3 – Investment Consultant Selection and Evaluation Review

Finding Summary

The centralized repository for procurement files located near the procurement specialists cubicle was not used for two out of three files selected for review.

Report Recommendation

1. A centralized repository should be consistently used so ERS employees can easily access files in case of public and state requests to review. Going forward, all procurement files should be kept in the designated location.
2. Management should develop a procurement records retention policy that specifically includes the responsible person(s) or position(s) of the records, the centralized repository, and the record retention periods.

Finding Rating	**Low**
Follow-up Review Status	Implemented
Date Originally "Cleared"	September 2020; February 2021
Responsible Manager(s)	Accounting Supervisor

Management "Cleared" Response

The ERS has updated the file location for procurements to be by fiscal year, and will continue to refine the folder structure during FY21. While most procurement files are now being scanned and digitally retained, certain procurements may require 4+ boxes of records. These boxes are maintained in centralized area(s). A procurement records retention policy has been developed in January 2021 and is in the process of being implemented.

Validation Process

Inquiry: Investment procurements and other procurements are filed in cabinets located in the procurement area of the ERS office. Non-investment related procurements are also digitally scanned.

Finding #3 – Investment Consultant Selection and Evaluation Review

Validation Process

Testing: IA completed the following:

- Conducted a walkthrough of both digital and physical procurement files, noting no issues. There were designated areas for all procurement files and files were maintained in boxes and filing cabinets. Additionally, the Accounting Manager showed the network drive location in which digital copies of procurements are maintained. The procurements were organized by year and type.
- Obtained and reviewed a copy of the procurement records retention policy, effective January 8, 2021. The policy included the following recommended areas:
  - Responsible Department and Positions – The ERS Procurement and Inventory Management Section is responsible for procurement retention. The Procurement Specialist and Accounting Branch Chief (backup) are the responsible positions.
  - Location and Storage of Records - A centralized repository containing the procurement records is kept and maintained on the ERS' property in the Procurement and Inventory Management Section offices. These records are identified alphanumerically by the calendar dates, procurement type, category, and solicitation name. Records are stored in a secured office. These documents are stored in a locked cabinet which are protected and guarded as confidential.
  - Record Retention Periods - Records are not retained beyond their retention periods, as defined in the State of Hawaii General Records Schedule, unless valid business reasons for their continued retention are provided or they are required under a document hold.

COMMUNICATIONS AND COMMUNITY RELATIONS REVIEW

Finding #1 – Communications and Community Relations Review

Finding Summary		Finding Rating	**Moderate**
An updated Strategic Plan and Communications Plan has not been completed.		**Follow-up Review Status**	Implemented
Report Recommendation		**Date Originally "Cleared"**	September 2020
Management should develop and release an updated, board-approved strategic plan for 2020-2024 and should be presented and made available to all internal employees, stakeholders, and external parties. Management should also develop a formal communications plan that details the specific steps to fulfill communications initiatives set forth in the Strategic Plan.		**Responsible Manager(s)**	Executive Director; Program Specialists

Management "Cleared" Response

An ERS Strategic Plan from 2020-2024 was approved by the Board of Trustees in February 2020 and is available on the ERS website. Also, an ERS Communications Plan was reviewed by the Administrative Audit Committee in July 2020 and subsequently approved by the Board of Trustees in August 2020.

Validation Process

Testing: IA completed the following:
- Reviewed the ERS Strategic Plan from 2020-2024 and confirmed it was available on the ERS website accessible by the public, including employees and prospective and current members. IA noted the Strategic Plan included mission, vision, value statements and four main goals, including a sub-objective around communicating effectively.
- Reviewed the Board of Trustee Meeting Minutes, dated February 10, 2020, noting the Strategic Plan was reviewed and approved by the Board.

Finding #1 – Communications and Community Relations Review

Validation Process

Testing (cont.):

- Reviewed the Board of Trustee Meeting Minutes, dated August 10, 2020, noting the Communications Plan was reviewed and approved by the Board.
- Obtained a copy of the Communications Plan and noted the plan coincides with Goal 1 (Objective C & D) and Goal 4 (Objective A & D) from the ERS Strategic Plan from 2020-2024. The main goals of the Plan are to improve on internal and external communication, perform periodic evaluation of Communications Plan for revision and improvement, and to assess relevance. Each of the goals and objectives listed in the Plan are supported with sub-bullet points describing tasks to be completed to fulfill each item.

HR – PERSONNEL DEVELOPMENT & RETENTION REVIEW

Finding #1 – HR – Personnel Development & Retention Review

Finding Summary	**Finding Rating**	**Moderate**

The ERS has not developed or established formal comprehensive training plans, including related policies and procedures, for employees within each of the branches.

Follow-up Review Status	Partially Implemented

Report Recommendation

Date Originally "Cleared"	February 2021

Management should develop a formal comprehensive training plan for employees within each branch, i.e., Accounting, IT, Staff Support Services (SSS), and Program Support. For the training plans, consider the inclusion of specific training and development objectives; identifying the required skills and applicable training for each job position; creating timelines for completion of training and development goals; and tracking cost, benefit, delivery, and completion data for training plans across the organization.

Responsible Manager(s)	Deputy Executive Director, Accounting Manager, IT Manager, Lead Program Specialist

Management "Cleared" Response

The Accounting, IT, Staff Support Services (SSS), and Program Support Branches have developed formal documented comprehensive staff training plans for their new employees. The training plans developed for the program specialists and SSS covers all the required training for those specific positions, i.e., not just for the probation period.

Validation Process

Testing: IA obtained trainings plans for the following branches: Accounting, Information Systems, and Program Support. Per discussion with Drew Tomimoto, SSS Supervisor, there is no formal training/development plan in place. At this point, job shadowing serves as the mechanism to train current and new SSS staff.

Finding #1 – HR – Personnel Development & Retention Review

Recommendation

In alignment with the management response provided for Finding #1 in the Member Enrollment & Re-Enrollment Process Review (2024), SSS should develop training plans for its staff by the April 2025 target date. The training plans should include training on the duties, responsibilities, and expectations for SSS staff.

BENEFIT ESTIMATES & FINAL BENEFIT CALCULATION PROCESSING REVIEW

Finding #1 – Benefit Estimates & Final Benefit Calculation Processing Review

Finding Summary		Finding Rating	Moderate
The RBB does not have the appropriate amount of Retirement Claims Examiners (RCEs) on its Final Benefit calculation team to complete tasks timely while providing adequate quality reviews of Final Benefit calculations.		**Follow-up Review Status**	Implemented

Report Recommendation

The RBB should internally move at least one qualified RBB staffer to the finals team position, look to fill open positions available for hire, create new positions (as needed), and re-implement a second, independent review for Final Benefit calculations. RBB should also consider performing, at a minimum, a limited sample review of the Final Benefit calculations until the branch has the appropriate staffing to complete a 100% review. The RBB should identify candidates for Finals Team placement and create a training plan for these individuals.

Date Originally "Cleared"	February 2022
Responsible Manager(s)	Retirement Benefits Manager

Management "Cleared" Response

One RCE was moved to the Benefit Section and a senior RCE from the Death Team was moved to the Finals Team. The RBB's senior RCE was tasked with performing the second finals review. Cases for review were selected based on the categories (e.g. Judges, Police/Fire), RCE in training, and complexity (e.g. disability applications with worker's compensation).

Finding #1 – Benefit Estimates & Final Benefit Calculation Processing Review

Validation Process

Inquiry: The RBB moved a RCE to the Finals Team from the Death Team in 2022. In 2023, the RBB hired a new RCE IV and placed them on the Finals Team. The Finals Team currently has a total of six staff compared to four at the time of the finding and have been doing better with handling the volume of retirement finalizations. In anticipation of the retirement of an experienced finals team RCE, the RBB is having this RCE mentor and develop other staff providing institutional knowledge and experience down to the team.

Testing: IA completed the following:
- Obtained and reviewed a list of the Finals Team members as of May 2024, confirming there are a total of six staff on the team.
- Reviewed a copy of a completed "FINALS 2nd Review Checklist" for a member retirement, noting the form was signed and dated by the reviewer. The checklist included a number of validation procedures to confirm the final benefit was calculated properly and accurately.
- Reviewed a copy of the 2nd Finals Review log. This log contains the members in which a 2nd review was completed and lists the member's name, the date the retirement was finalized, the date of the 2nd review, comments, and sign-offs from the RCE staff and the 2nd reviewer (first used in 2023). IA noted reviews are still being done through present day.

Finding #2 – Benefit Estimates & Final Benefit Calculation Processing Review

Finding Summary

Finding Rating	Low

V3 System issues have led to inefficiencies, including the implementation of various workarounds in the Benefit Estimate and Final Benefit calculation processes.

Report Recommendation

Administration, the Information Systems (I/S) Branch, and the RBB should meet and discuss the V3 System issues causing various workarounds. Issues should be prioritized and the completion deadlines for remediation established, then periodically tracked and monitored for resolution.

Follow-up Review Status	Implemented
Date Originally "Cleared"	February 2022
Responsible Manager(s)	Retirement Benefits Manager

Management "Cleared" Response

The RBB and the I/S Branch had discussions regarding V3 Modification of Act 134 interest for December 31 retirees and had an Act 17 kickoff meeting with Vitech to help address these issues. The I/S Manager has updated the RBB and Administration regarding the status of new imaging scanners which included bringing in third party vendor, PACXA, for assistance. The RBB and I/S were able to address a V3 workaround process by creating the capability to merge the Finals Benefit Letter and Pension Report into one document.

Validation Process

Inquiry: Administration, the I/S Branch, and the RBB have collaboratively worked together to resolve these V3 System issues. They have made progress on implementing changes into V3 for Act 134, Act 17, and scanner compatibility and continue to work on resolving these issues.

Finding #2 – Benefit Estimates & Final Benefit Calculation Processing Review

Validation Process

Testing: IA completed the following:
- Reviewed Final Benefit Letters for five retirees and confirmed the letter and pension report were merged into a single document. The letters reviewed were dated between May 2023 to March 2024.
- IA reviewed email chains from 2022-2024 evidencing progress made by the RBB and the I/S Branch on implementing solutions for Act 134 and Act 17. Progress included testing, approving, and implementing fixes to certain issues and dialogue between the RBB and the I/S Branch on remaining issues to resolve.

Adobe Efficiency Report

September 2024

Your Adobe Team

Ashley Batitto
DX Account Director,
State & Local West

Chirs Lim
Director,
Experience Driven
Government

Jason Fabbri
Principal Solutions Consultant
State & Local

Drew Peterson
DMe Account Director,
State & Local West

Steve Saman
Solutions Consultant,
Sign

Today's agenda

- Project Recap & Executive Summary

- Process Discovery for ERS (what we found)

- Roadmap & Recommendations

- Demonstration

- Estimated Cost

- Next Steps

Today's agenda

- Project Recap & Executive Summary

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Experience Driven Government is personalized service delivery across agencies

Lisa Smith | Sample resident journey in County of San Diego

EDUCATE	ENGAGE	ENROLL	NURTURE
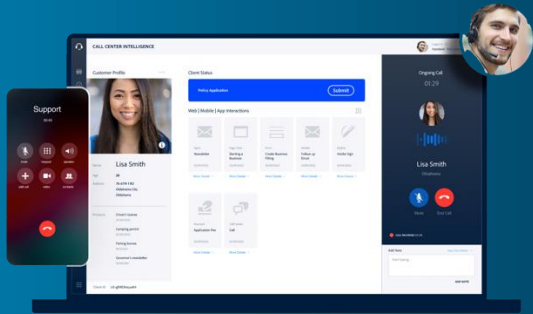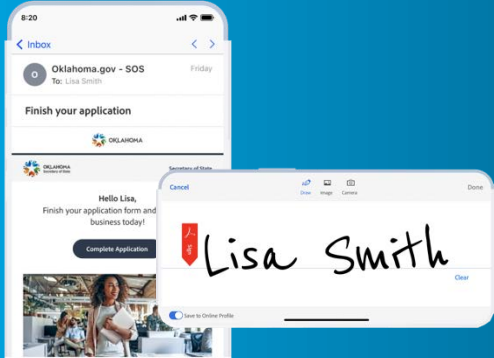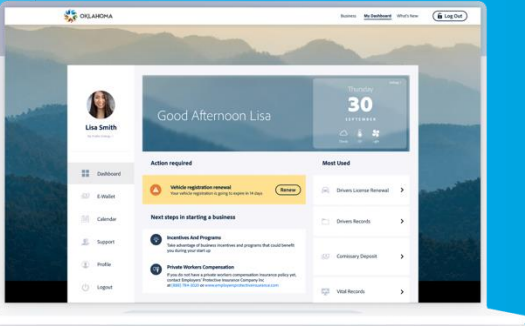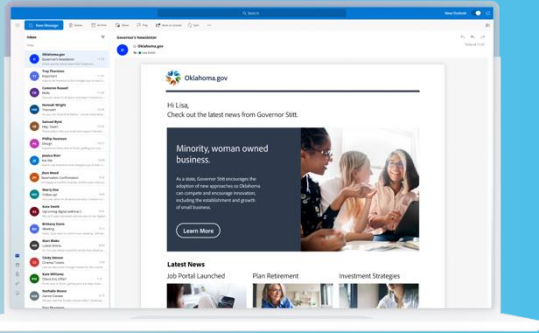
Services Portal

Static Catalog of Services	Authenticated Dashboard	Digital Forms	Support as available

Experience Driven Government

Automated Recommendations	Real-Time Profile	Seamless Onboarding	Call Center Integration

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Experience Driven Government brings measurable savings to residents

Quantitative Benefits	Qualitative Benefits
Save time for residents Sample KPIs: Average wait time for in-person services, claims processing time	**Improve trust** Sample KPIs: Social media sentiments, digital enrollment rate for county programs
Reduce costs Sample KPIs: Costs for printing and mailing benefit renewal reminders; cost of duplicative technology	**Support inclusivity** Sample KPIs: Usage of language translation tools
Increase security & compliance Sample KPIs: Cases of fraud in assistance programs	**Improve outcomes** Sample KPIs: CalFresh participation, library event attendance

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Today's agenda

- Project Recap & Executive Summary

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- Roadmap & Recommendations

- Demonstration

- Estimated Cost

- Next Steps

ERS Form Modernization Priorities

Form Modernization

Faster Time to Service

Reduce Inputting

Data Input

Barcoding

Improved Workflows

Web Friendly Forms

Streamline Scanning

Forms Accessibility

Better Documentation Procedure

Automate Indexing

Mobile Friendly Forms

Modernize Notarization Process

Reduce Backlog

Security
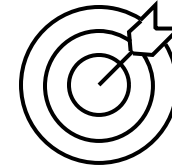
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Our understanding of your Objectives

OBJECTIVES

Reduce paper-based processes
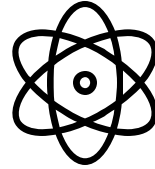
Improve internal efficiency

Decrease backlog

DIGITAL PRIORITIES

Personalization

Tailor website content for authenticated and anonymous users to better guide users

Multi-Channel Outreach

Reach residents on their preferred channel (e.g., email, text, chat) and language

Accessibility

Design for residents who have disabilities, low broadband access, and low English fluency

Data Sharing

Consolidate, segment, and activate data across touchpoints and across agencies

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PDF Fillable Forms

The PDF fillable forms shows if the PDF has fields that fillable within the PDF document, which then can be saved and sent to a recipient. A fillable PDF document can be either a document where there are fields available to be filled in and/or hyperlinks in the table of contents that link to other parts of the PDF document.

PDF Fillable Forms

Row Labels	Count of URL	Percentage of URLs	Benchmark
FALSE	301	91.2%	94.4%
TRUE	29	8.8%	6.0%
Grand Total	330		

➢ **91.2%** of the PDFs scanned are static PDFs and/or did not have a fillable and/or hyperlinked component within the PDF document

➢ **8.8%** of the PDFs scanned are dynamic PDFs and have a fillable and/or hyperlinked component within the PDF document
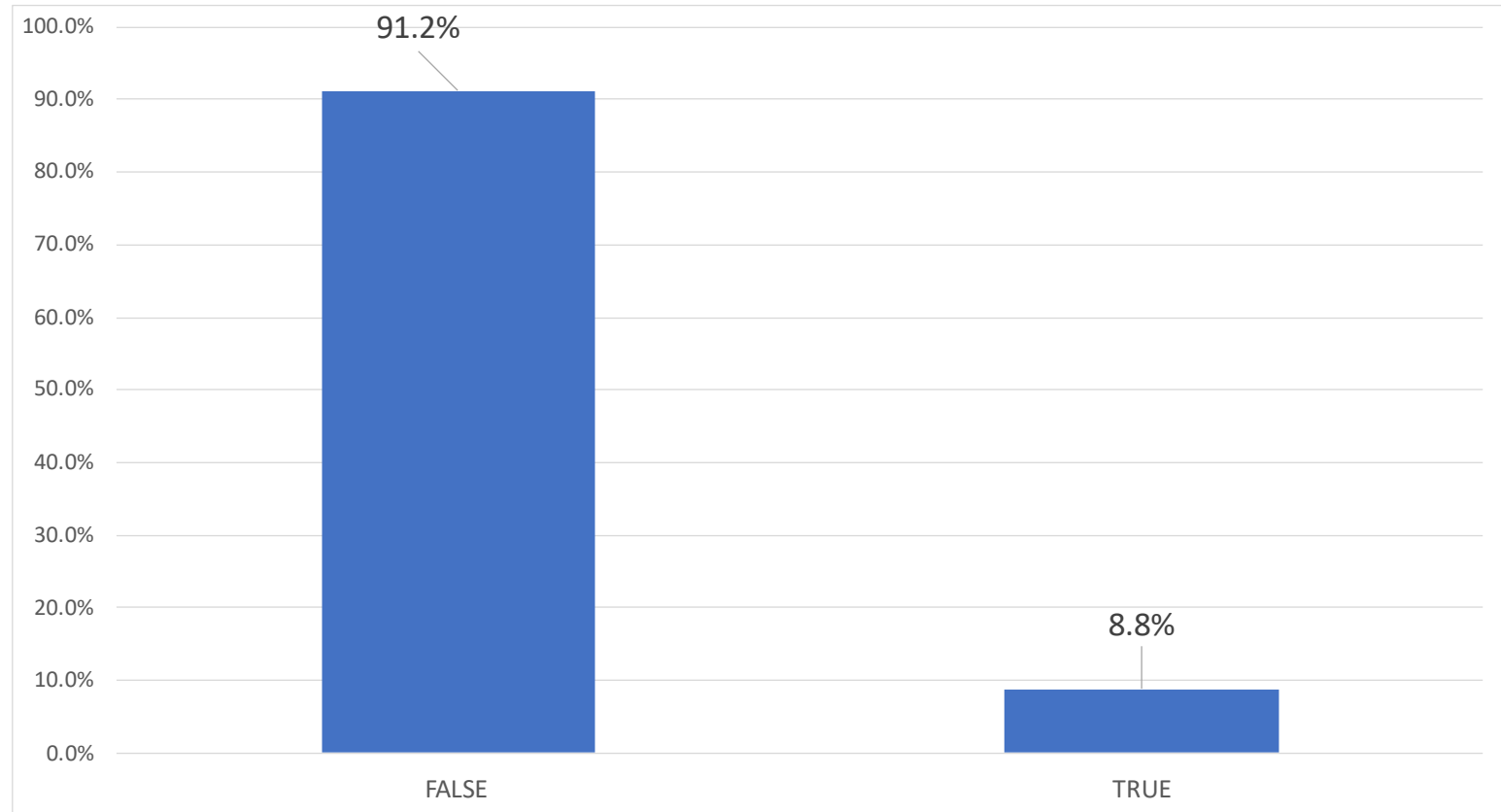

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PDF Version Number

Starting in 1993, Adobe created different versions of the PDF specification and with each new version Adobe has added new features and a security component to the PDF documents. Starting in 2006, Adobe started started releasing new versions that are compatible with the ISO standards. ISO standards are for "full function PDF." The older the version, can potentially involve security risks.

PDF Version Number

Row Labels	Count of URL	Percentage of URLs	Benchmark
1.3	24	7.3%	4.6%
1.4	57	17.3%	11.9%
1.5	16	4.8%	22.8%
1.6	74	22.4%	39.4%
1.7	159	48.2%	20.8%
Grand Total	330		

➢ **22.8%** of the PDFs scanned were created using version 1.5, which was published in 2003

➢ **39.4%** of the PDF's scanned were created using version 1.6, which was published in 2004

➢ **20.8%** of the PDFs scanned were created using version 1.7, which was first published in 2006 with other updates published in 2011
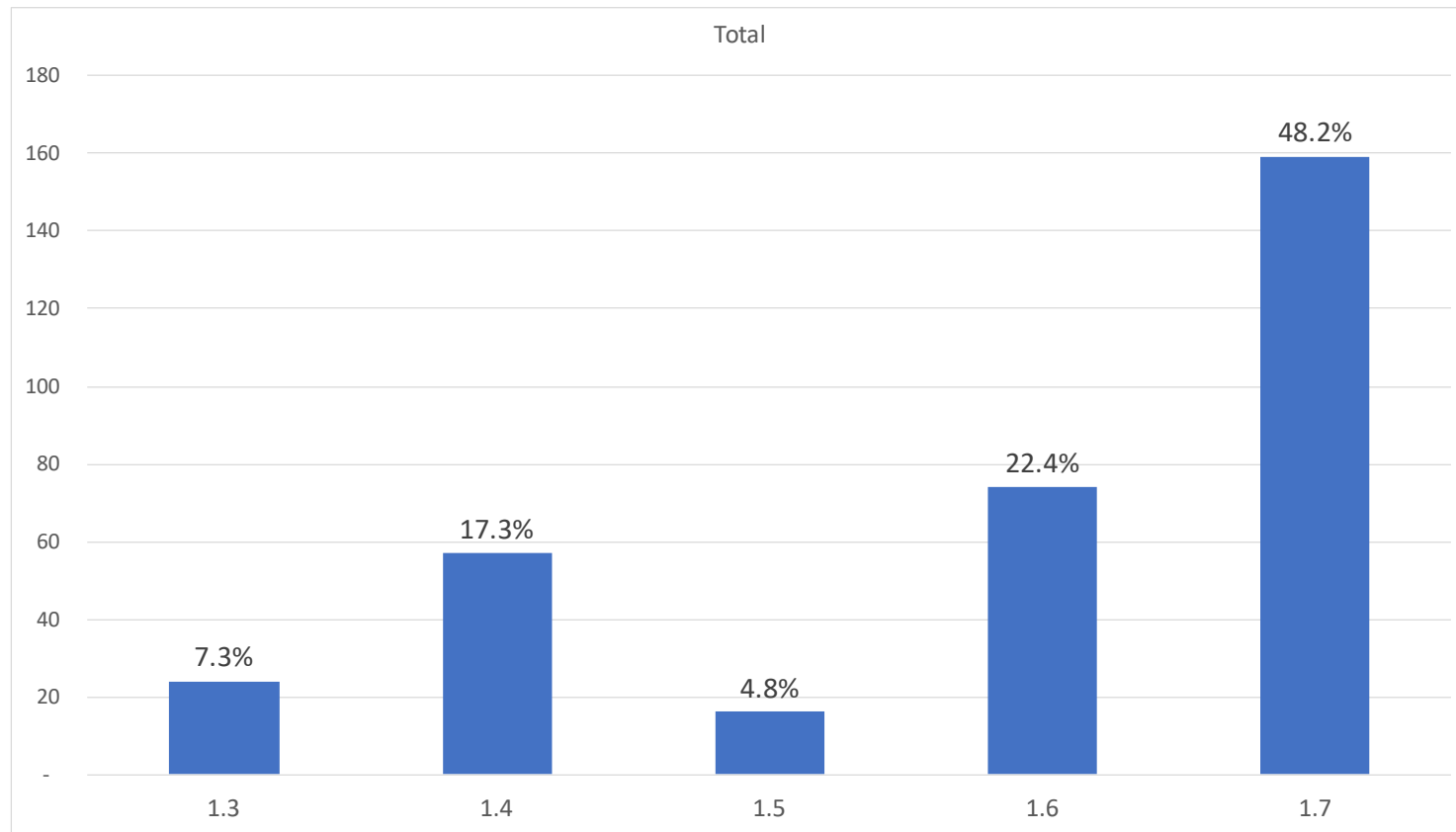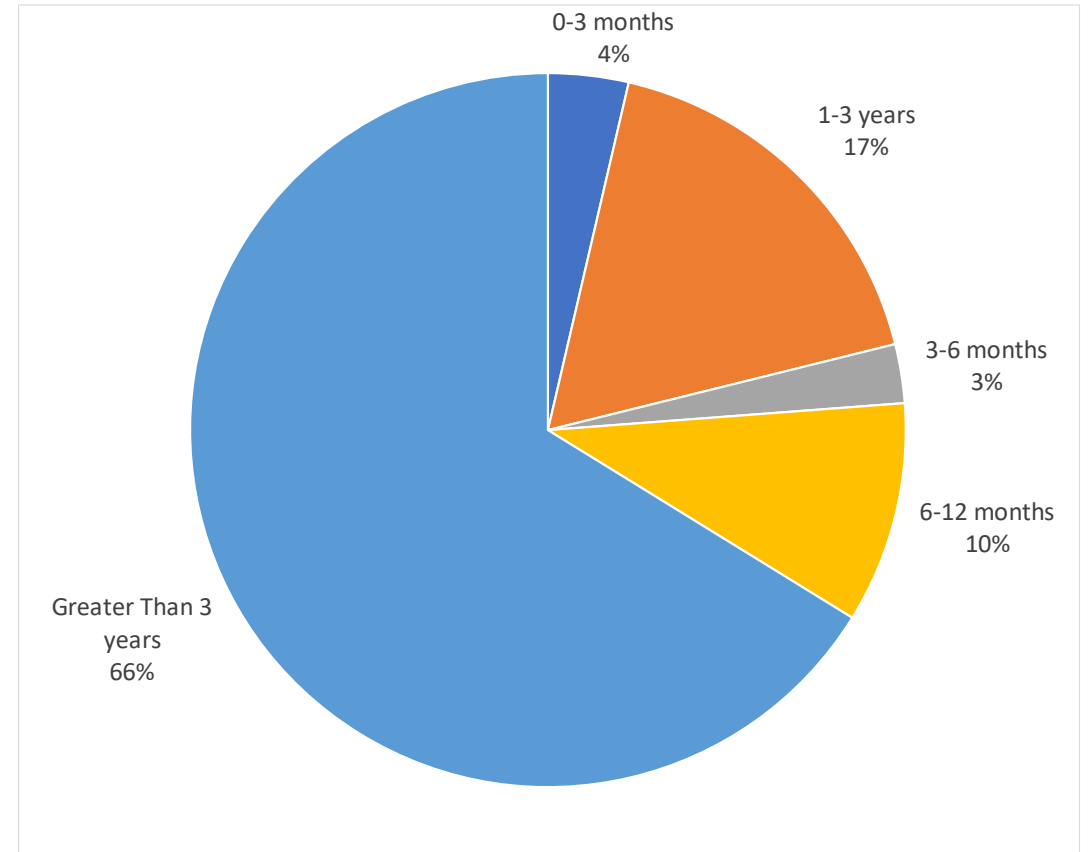
PDF Days Since Last Mod Categories

PDF Days Since Last Mod Categories

Row Labels	Count of URL	Percentage of URLs	Benchmark
0-3 months	9	2.7%	3.2%
1-3 years	107	32.4%	20.6%
3-6 months	20	6.1%	3.4%
6-12 months	52	15.8%	8.2%
Greater Than 3 years	142	43.0%	65.1%
Grand Total	**330**		

The PDF days since last modified categories shows the number of days since the PDF document was last modified compared to the date the scan was last reviewed (8/9/2024). This can potentially be an indication of a stale PDF document or at least that the PDF document might need to be updated.

➢ **43.0%** of the PDFs scanned have not been updated in more than 3 years, which potentially indicates the PDF documents could be stale

➢ **32.4%** of the PDFs scanned have not been updated between 1-3 years ago

➢ **15.8%** of the PDFs scanned have not been updated between 6-12 months ago

➢ **6.1%** of the PDFs scanned have been updated between 3-6 months ago

➢ **2.7%** of the PDFs scanned have been updated between 0-3 months ago

Pie chart: 0-3 months 4%; 1-3 years 17%; 3-6 months 3%; 6-12 months 10%; Greater Than 3 years 66%

Today's agenda

Adobe / ERS Roadmap

Progressive Adoption →

solution

		Analytics
	Barcoding	Barcoding
Sign and Forms	Sign and Forms	Sign and Forms

6 to 9 months   **9 to 12 months**   **12 to 18 months**

use case

"We want to improve our citizens experience by making any type of form submission or inquiry digital"

"We want to improve our citizens experience when making any type of form submission or inquiry digital, while also making paper-based processes easier"

"We want to improve our citizens experience when making any type of form submission or inquiry digital, while also making paper-based processes easier and gathering more analytical data on the employee/employer process to make better informed decisions"

Introducing Acrobat Sign for Microsoft Teams – with Live Sign

NEW

The Solution

**Get documents signed live in your Microsoft Teams meeting.**

Use Cases

- Execute legal documents remotely
- Open new accounts or services remotely
- Remote expert certification
- Complete time-sensitive agreements fast

Live Signing in a Teams call is easy

Create a new agreement with a template or use an in-process agreement

1. Join a scheduled Teams meeting
2. Add Live Sign to the meeting in the chat pod
3. Select what type of agreement you would like to get signed
4. Match signer(s) to meeting participants
5. Follow along in the chat as your signer(s) go through the signing process
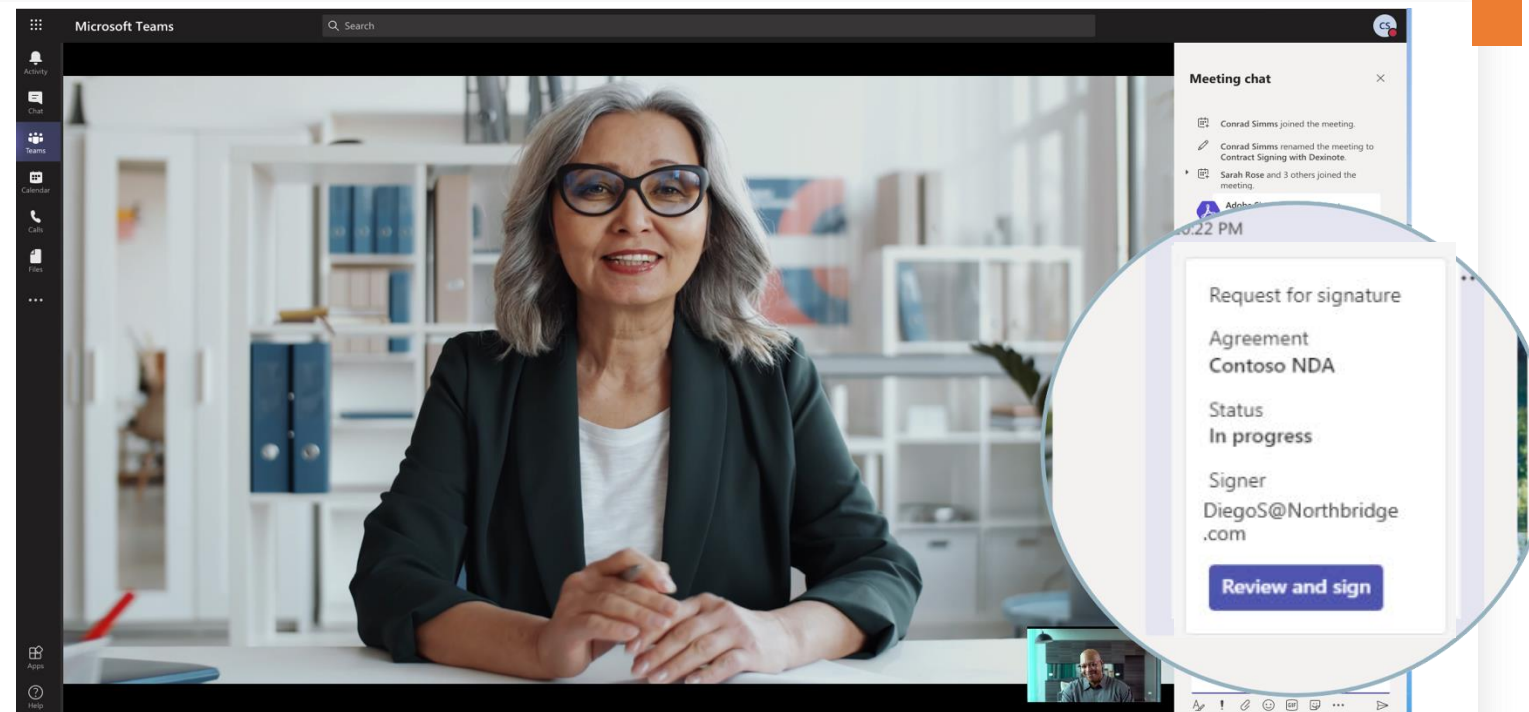

Click here to see how it works

Senders need Microsoft Teams, Acrobat Sign or Acrobat Pro, and Acrobat Sign for Microsoft Teams App.

Signers don't need an Acrobat Sign account nor a Microsoft Teams account. All they need to do is download the free Teams app and join the Microsoft Teams meeting via their desktop, laptop, tablet or phone.

# Acrobat Sign for Microsoft Teams – with Live Sign

Business Impact
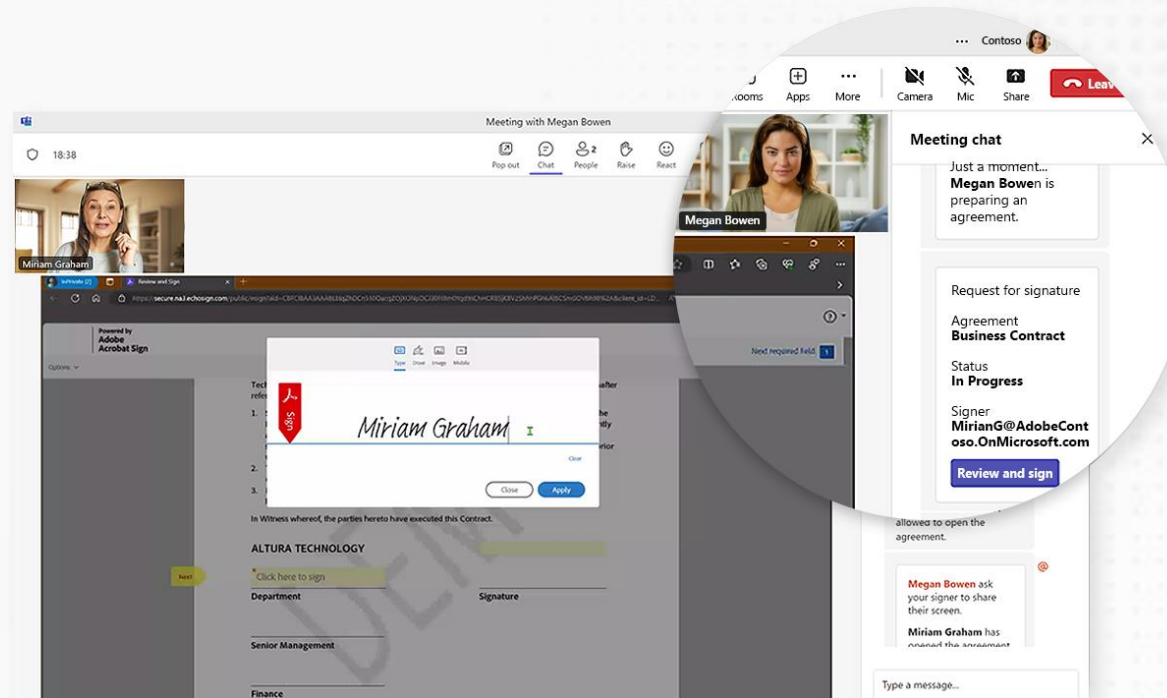
Improved customer experience that is more personalized, completely guided, and interactive – no more going back and forth in email or text explaining complex agreements.

Faster signing since it requires fewer steps, questions and unclear details can be resolved in real-time and traveling to in-person meetings is no longer needed.
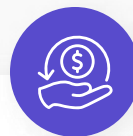
Maximized ROI on Microsoft Teams investment with its seamless integration allowing users to do even more within Microsoft Teams.

Increased security and compliance since Live Sign upholds all the robust compliance and security features of Acrobat Sign.

64% reduction in average number of clicks to sign, from 11 to just 4.

Accelerate document productivity with GenAI

Enable knowledge workers to do what they do with documents manually today, faster.
In a safe and responsible manner.

Document insight: AI-assisted conversational experiences

Document creation: AI-powered authoring, editing and formatting

Document collaboration: AI-supported review process
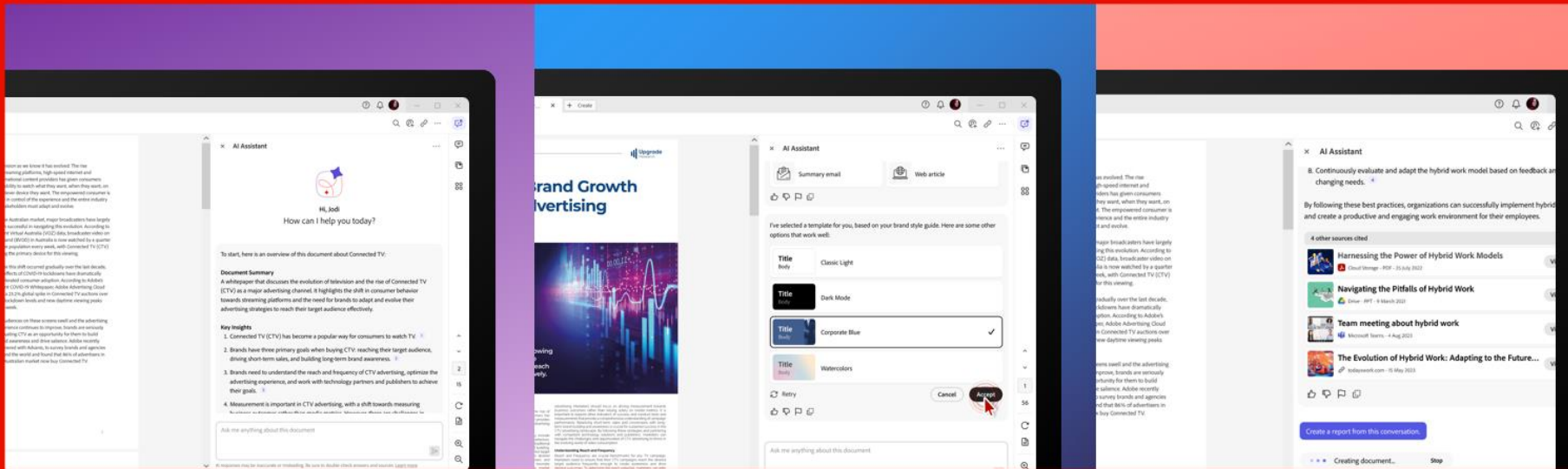
Designed for Enterprise

Verifiable outcomes, grounded in the source document(s)

Simple data governance – no unintended enterprise sources

Safeguards to protect customer data – no data collection

Responsible AI

Easy to deploy, faster time to value

Up to 50% of time saved on document actions; up to several hours per week for some

- Speeds up manual work - accelerating time to knowledge and high-quality content generation
- Enables deep document insights and informed synthesis
- Stays in the flow of work, providing a seamless user experience

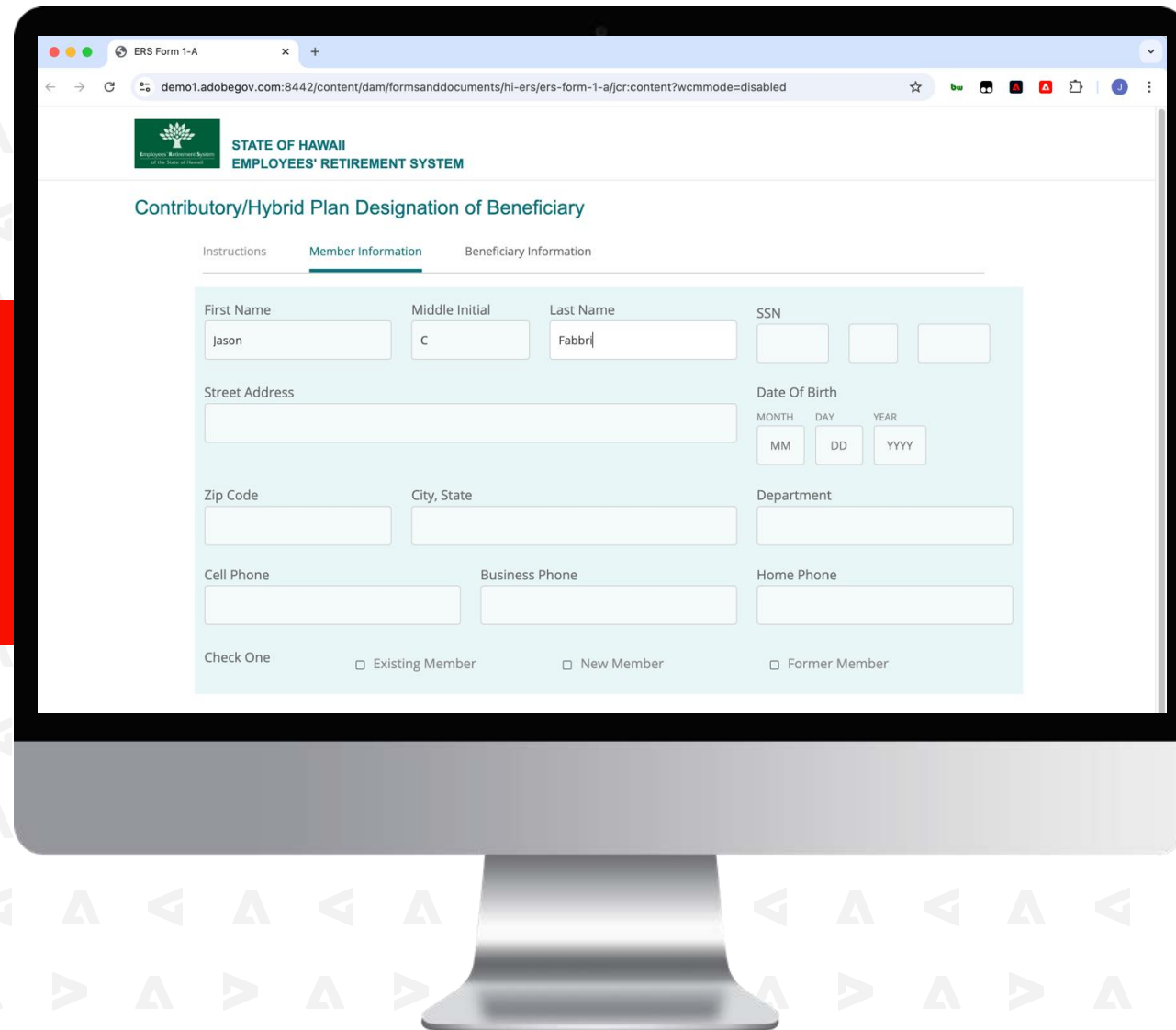Black font - avail today or shipping imminently; **Gray font - on roadmap or considered**

Today's agenda

- Project Recap & Executive Summary

- Process Discovery for ERS (what we found)

- Roadmap & Recommendations

- **Demonstration**

- Estimated Cost

- Next Steps

Modernizing Member Experience Demonstration

Today's agenda

- Project Recap & Executive Summary

- Process Discovery for ERS (what we found)

- Roadmap & Recommendations

- Demonstration

- Estimated Cost

- Next Steps

Estimated Cost for AEM

Year 1: **$95,000 - $100,000 and <u>Cost of Implementation/Services</u>**

Includes: AEM Forms Cloud Service

Year 2: $155,000 - $165,000

Includes: AEM Forms Cloud Service and Analytics*

Year 3: standard 8% YoY uplift

Year 4: standard 8% YoY uplift

Year 5: standard 8% YoY uplift

.
*optional add

Adobe

Estimated Cost for Adobe Sign

Adobe Sign is paid for by Hawaii ETS, therefore Adobe Sign would <u>have no cost</u> for HI ERS to use and implement

Today's agenda

- Project Recap & Executive Summary

- Process Discovery for ERS (what we found)

- Roadmap & Recommendations

- Demonstration

- Next Steps

Next Steps

- Schedule additional demos/working sessions

- Discovery session with partner get an estimate on services cost

- ERS submit budget request for FY25

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

JUNE 25, 2024

CITY FINANCIAL TOWER
201 MERCHANT STREET, SUITE 1200
HONOLULU, HAWAII 96813

Trustees present: (City Financial Tower by teleconference)	Dr. Catherine Chan, Chair* Mr. Vincent Barfield, Vice Chair* Dr. Genevieve Ley Mr. Luis Salaveria
Staff present: (City Financial Tower by teleconference)	Mr. Thomas Williams, Executive Director* Mr. Kona Mann, Chief Compliance Officer* Mr. James Greubel, Program Specialist* Ms. Shanna Sakagawa, Program Specialist* Ms. Kristin Varela, Chief Investment Officer* Mr. Keith Miyamoto, Information Services Branch Manager* Ms. Sandra Straub, Information Services Systems Supervisor* Ms. Lori Kobayashi, Retirement Benefits Branch Manager Mr. Drew Tomimoto, Staff Support Services Supervisor Ms. Dale Kehau Kanae, Recording Secretary* Ms. Lori Kim, Secretary Ms. Andrea Gasper, Secretary*
Attorneys present: (by teleconference)	Ms. Jenny Nakamoto, Deputy Attorney General* Ms. Lori Tanigawa, Deputy Attorney General* Ms. Diane Wong, Deputy Attorney General*
Guests present: (by teleconference)	Mr. Joe Newton, Gabriel Roeder Smith & Company Mr. Peter Hanashiro, KMH LLP Mr. Tyson Suehiro, KMH LLP Mr. Dave Collins, RSM US LLP Mr. Alfred Ko, RSM US LLP *Attended Executive Session

QUORUM/CALL TO ORDER	A quorum being present (Chair Chan, Vice Chair Barfield, and Trustees Ley and Salaveria), Chair Chan 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 2:00 p.m. and identified the Trustees present and had them confirm that they are the only ones present at their remote location and that no one else was able to listen in on their teleconference while attending the meeting.

On a motion made by Trustee Ley, seconded by Vice Chair Barfield, and unanimously carried, the Committee voted to hold a meeting allowing Trustees and members of the public to participate by interactive conference technology, pursuant to the HRS §92-3.7, with at least one meeting location open to the public that has audiovisual connection. |

PUBLIC COMMENT	Chair Chan called for public comment. There was no public present by teleconference or in person, therefore, no public comment. There was also no written public testimony received for this Committee meeting.
PRELIMINARY ANNUAL ACTUARIAL VALUATION REPORT BY GABRIEL ROEDER SMITH & COMPANY FOR THE YEAR ENDING JUNE 30, 2024	Gabriel Roeder Smith & Company's Joe Newton attended the meeting by teleconference and presented an oral and written report to the Committee on a Mid-Year Update and discussed in summary:

PROJECTED 2024 ACTUARIAL VALUATION RESULTS
Projection of Funding Period from 2016 Legislative Impact Statement vs Actual Valuation Outcomes
The UAAL slightly grew in dollars from last year, but this was expected and is still well below 2016 projections.

TWO LEGISLATIVE BILLS
SB 3070 HD1 CD1
HB 40 SD1 CD2
New policy begins at 25 years as of 2024 and begins a process of lowering the maximum period by 1 each year.
The funding period under the new policy is not expected to breach the Maximum as long as ERs achieves 6% returns or better.

SUMMARY
The funded ratio is projected to increase and the funding period to decrease by 1 (as expected).
The System continues to move towards positive amortization, expected to begin in FY2026 or FY2027.
The new maximum amortization period will protect the System over the long term.
It is likely this type of change will be seen very favorably by bond raters and satisfies all of the new Actuarial Standards of Practice.

On a motion made by Vice Chair Barfield, seconded by Trustee Salaveria and unanimously carried, the Committee accepted Gabriel Roeder Smith & Company's Preliminary Annual Actuarial Valuation Report for the Year Ending June 30, 2024, and will be presenting it to the Board for their approval at the next Board meeting of July 8, 2024.

After his presentation, Mr. Newton left the meeting by exiting his teleconference connection.

MEMBER ENROLLMENT & RE-ENROLLMENT PROCESS REVIEW REPORT BY KMH LLP INTERNAL AUDIT UPDATE REPORT BY KMH LLP ON THE CURRENT STATUS OF ACTIVITIES COMPLETED DURING Q1 AND 12, 2024, AND AN UPDATE ON THE COMPLETION STATUS OF MANAGEMENT ACTION PLANS FOR PAST INTERNAL AUDIT OBSERVATIONS AND RECOMMENDATIONS	KMH LLP's Peter Hanashiro and Tyson Suehiro attended the meeting in person and RSM US LLP's Dave Collins and Alfred Ko attended the meeting by teleconference and presented oral and written reports to the Committee of KMH LLP's Member Enrollment & Re-Enrollment Process Review and Internal Audit Report and discussed in part, and summary:

INTERNAL AUDIT REPORT
EXECUTIVE SUMMARY
Administrative and Other Matters
Status on Current Projects
- Virtual Chief Information Security Officer (vCISO)
- Follow-Up Review

Status on Current Projects (Carryover from 2023)
- Member Enrollment & Re-Enrollment Review

MEMBER ENROLLMENT &
RE-ENROLLMENT PROCESS
REVIEW REPORT BY KMH
LLP

INTERNAL AUDIT UPDATE
REPORT BY KMH LLP ON
THE CURRENT STATUS OF
ACTIVITIES COMPLETED
DURING Q1 AND 12, 2024,
AND AN UPDATE ON THE
COMPLETION STATUS OF
MANAGEMENT ACTION
PLANS FOR PAST INTERNAL
AUDIT OBSERVATIONS AND
RECOMMENDATIONS

(CONT'D)

- Continuous Monitoring Tool Development – Part 1
SUMMARY OF TASKS COMPLETED
- Follow-Up Review
- Virtual Chief Information Security Officer (vCISO)
- Continuous Monitoring Tool Development – Part 1
- Estimated Value Heatmap
- PIF 2 – All fields meet the required length and content
SUMMARY RESULTS OF REPORT COMPLETED
- Member Enrollment & Re-Enrollment Review
2024 INTERNAL AUDIT PLAN RESULTS SUMMARY
MANAGEMENT ACTION DASHBOARD

MEMBER ENROLLMENT & RE-ENROLLMENT PROCESS
    REVIEW REPORT
BACKGROUND
Prior Audit Results
Regulatory Requirements
Enrollment and Re-Enrollment
Class Code Report
SCOPE & OBJECTIVES
SUMMARY OF FINDINGS
PLANNED FOLLOW UP BY MANAGEMENT AND INTERNAL
    AUDIT
OVERAL RATING SCALE
RATINGS FOR INDIVIDUAL FINDINGS
Finding 1: Lack of Staffing, Technology, and Policies and Procedures
    Causing Imaging Backlog
Finding 2: Lack of File Management Policies and Procedures
    Resulting in Significant Delays in Locating and Providing
    Enrollment Forms

The Committee was very concerned with the rating of unacceptable for
the Member Enrollment & Re-Enrollment Process Review Report and
requested that ERS Administration focus on and address issues with
solutions within the next 12- to 24- months and as timely as possible
so as not to continue to push back deadlines, as issues have already
been ongoing for many years. Executive Director Thomas Williams
assured the Committee that he will be responsible for each finding,
however, managers identified for each finding will be responsible for
implementation.

On a motion made by Trustee Salaveria, seconded by Trustee Ley, and
unanimously carried, the Committee accepted KMH LLP's Member
Enrollment & Re-Enrollment Process Review Report and Internal
Audit Update Report and will be presenting it to the Board for their
approval at the next Board meeting of July 8, 2024.

CONSIDERATION AND DISCUSSION
OF POTENTIAL AMENDMENTS TO
TITLE 6 OF HAWAII
ADMINISTRATIVE RULES
FOR CHAPTER 6-24, "ELECTION OF
MEMBERS AND RETIRANT OF THE
SYSTEM TO THE BOARD OF
TRUSTEES" TO INCLUDE
ADDITIONAL IDENTIFIERS OF
NOMINATOR VALIDATION AND
CLARIFY INDEPENDENT

Program Specialist (PS) James Greubel presented an oral and written
report to the Committee and discussed the Updates to the Hawaii
Administrative Rules (HAR) Chapter 6-24, Election of Members and
Retirant of the System to the Board of Trustees.

The Committee requested to include language for the petition to be
able to be submitted electronically.

PS Greubel will redraft the HAR to include language for the petition to

BALLOTING AGENTS' ROLES IN BOARD ELECTIONS; FOR REVIEW AND RECOMMENDATION TO THE BOARD OF TRUSTEES. A COPY OF THE POTENTIAL AMENDMENTS BEING CONSIDERED IS AVAILABLE TO BE VIEWED IN PERSON AT THE ERS OFFICE AND IS ALSO POSTED AT ers.ehawaii.gov/resources/all-publications UNDER "HAWAII ADMINISTRATIVE RULES (HAR)".

be submitted electronically and will resubmit a revised draft for the Committee's acceptance and to be presented to the Board for approval.

COMPLIANCE SUPPORT STAFF REPORT AND UPDATE ON IMPLEMENTATION OF ERS' COMPLIANCE PROGRAM ON RISK ASSESSMENT, POLICIES & PROCEDURES, AND THIRD-PARTY RISK MANAGEMENT

Chief Compliance Officer (CCO) Kona Mann provided an oral and written report to the Committee on the Compliance Support Staff Report and Update on Implementation of ERS' Compliance Program on Risk Assessment, Policies & Procedures, and Third-Party Risk Management and discussed in summary:

EXECUTIVE SUMMARY
Key Highlights
Next Steps

ERS COMPLIANCE PROGRAM
Strategy: Compliance is central to ERS' strategic planning;
Risk Management: All risks are identified, owned, managed, and mitigated;
Culture: Leaders at all levels across the organization build and sustain a culture of integrity, risk governance, and management;
Speaking Up: The organization encourages, protects, and values reporting of concerns and suspected wrongdoing; and
Accountability: ERS and its various business functions take action and holds itself accountable to effective risk management and open and upward communication, sharing of knowledge and best practices, continuous process improvement and a strong commitment to ethical and responsible business behavior.

This quarterly report was provided for the Committee as an update and no action was required.

APPROVAL OF MINUTES - JANUARY 31, 2024

On a motion made by Trustee Ley, seconded by Trustee Salaveria, and unanimously carried, the Committee approved the minutes of the March 4, 2024, meeting as presented.

PUBLIC COMMENT

Chair Chan called for public comment. There was no public present by teleconference or in person, therefore, no public comment.

(Chair Chan identified attendees of the Executive Session, Committee members Chair Chan, Vice Chair Barfield, and Trustees Ley and Salaveria, and ERS staff, Executive Director Thomas Williams, Chief Investment Officer Kristin Varela, Chief Compliance Officer Kona Mann, Program Specialists James Greubel and Shanna Sakagawa, Information Services Branch Manager Keith Miyamoto, Information Services Systems Supervisor Sandra Straub, Recording Secretary Dale Kehau Kanae and Secretaries Andrea Gasper and Lori Kim; Deputy Attorneys General Jenny Nakamoto, Lori Tanigawa, and Diane Wong.

Chair Chan provided the reason to enter into Executive Session: Executive Session, pursuant to HRS §92-5(a)(4), (6), and (8), to consider and consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges,

immunities, and liabilities, and to consider sensitive matters related to Cyber Security Updates; and to make a decision on the Approval of Executive Session Minutes which are confidential under State law.)

ENTER EXECUTIVE SESSION	On a motion made by Trustee Ley, seconded by Vice Chair Barfield, and unanimously carried, the Committee entered into Executive Session at 4:00 p.m.

(Chair Chan requested, and all attendees confirmed, that no other persons were in their rooms or able to listen in on their audio or audiovisual connection while they were on the teleconference. Board Secretary Dale Kehau Kanae also confirmed that no unauthorized persons were in the conference room or able to listen in by audio or audiovisual connection while on the teleconference. Attendees are noted with an asterisk on these minutes and listed on the Executive Session Minutes.)

(Public participation concluded by ending the teleconference link.)

- Pursuant to HRS §92-5(a)(4) and (6), to consider and consult with the Board's attorneys on questions and issues pertaining to the Board's powers, duties, privileges, immunities, and liabilities, and to consider sensitive matters related to Cyber Security Updates.
- Pursuant to HRS §92-5 (a)(8), to review and approve Executive Session Minutes of March 4, 2024.

EXECUTIVE SESSION, PURSUANT TO HRS §92-5(a)(4) AND (6), TO CONSIDER AND CONSULT WITH THE BOARD'S ATTORNEYS ON QUESTIONS AND ISSUES PERTAINING TO THE BOARD'S POWERS, DUTIES, PRIVILEGES, IMMUNITIES, AND LIABILITIES, AND TO CONSIDER SENSITIVE MATTERS RELATED TO CYBER SECURITY UPDATES

EXECUTIVE SESSION PURSUANT TO HRS §92-5(a)(8), TO REVIEW AND APPROVE EXECUTIVE SESSION MINUTES OF MARCH 4, 2024

EXIT EXECUTIVE SESSION	On a motion made by Trustee Ley, seconded by Trustee Salaveria, and unanimously carried, the Committee exited Executive Session at 4:15 p.m.

Chair Chan announced that while in Executive Session, the Committee discussed matters related to Cyber Security Updates concerning staff vacancies and hiring quality personnel, procurement of a vendor, ability to ward off cyber threats, updates to software and hardware equipment, timely procurement, and approval of the Executive Session Minutes.

ADJOURNMENT	On a motion made by Trustee Salaveria, seconded by Trustee Ley, and unanimously carried, Chair Chan adjourned the meeting at 4:16 p.m.

REDACTED SIGNATURE

Thomas Williams
Executive Director

TW:dkik