

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: Dr. Catherine Chan, Chair*
(City Financial Tower Mr. Vincent Barfield, Vice Chair*
by teleconference) Dr. Genevieve Ley
Mr. Luis Salaveria

Staff present: Mr. Thomas Williams, Executive Director*
(City Financial Tower Mr. Kona Mann, Chief Compliance Officer*
by teleconference) 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: Ms. Jenny Nakamoto, Deputy Attorney General*
(by teleconference) Ms. Lori Tanigawa, Deputy Attorney General*
Ms. Diane Wong, Deputy Attorney General*

Guests present: Mr. Joe Newton, Gabriel Roeder Smith & Company
(by teleconference) 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

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 UPDATE REPORT BY KMH LLP ON THE CURRENT STATUS OF ACTIVITIES COMPLETED DURING Q1 AND Q2, 2024, AND AN UPDATE ON THE COMPLETION STATUS OF MANAGEMENT ACTION PLANS FOR PAST INTERNAL AUDIT OBSERVATIONS AND RECOMMENDATIONS MEMBER ENROLLMENT &

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
 - Continuous Monitoring Tool Development – Part 1

RE-ENROLLMENT PROCESS
REVIEW REPORT BY KMH
LLP

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

OVERALL 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
BALLOTING AGENTS' ROLES IN
BOARD ELECTIONS; FOR REVIEW

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

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)”.

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