Board Packet List of Documents

Administrative & Audit Committee Meeting
July 8, 2026

- Meeting Agenda

- New Business
  2. Preliminary Annual Actuarial Valuation Report
     by Gabriel Roeder Smith & Company
  3. Internal Audit Update Report
     by KMH LLP
  4. Compliance Support Staff Report

- APPROVAL OF MINUTES – February 11, 2026

Board Packet Documents are available for 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, July 8, 2026; 2:30 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 Administrative and Audit Committee of the Board of Trustees and members of the public may participate via interactive conference technology or in person at the meeting place stated above.

Members of the public may provide testimony in person or by teleconference, either audio or video, at the following link or phone number:
https://teams.microsoft.com/meet/21773289561652?p=Ds6uLN2I0HZib36zRf

Or join by entering meeting ID: 217 732 895 616 52 Passcode: zq9qT2NL

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: 184 680 841#

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

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, July 7, 2026, 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. Update on Trustee Election and Announce New Board Member.
2. Preliminary Annual Actuarial Valuation Report by Gabriel Roeder Smith & Company for the Year Ending June 30, 2026.
3. Internal Audit Update Report by KMH LLP on the Current Status of Activities Completed During Q1 and Q2 2026, and an Update on the Completion Status of Management Action Plans for Past Non-Information Technology Internal Audit Observations and Recommendations.

4. Compliance Support Staff Report and Update on Implementation of ERS' Compliance Program on Risk Assessment, Policies & Procedures, and Third-Party Risk Management.

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 – February 11, 2026

APPROVAL OF EXECUTIVE SESSION MINUTES – February 11, 2026

Pursuant to HRS § 92-5(a)(4), (6) and (8), the Committee may enter into executive session if such approval requires the consideration of sensitive matters relating to public safety or security; the consideration of information that must be kept confidential pursuant to State law; the consideration of the hire, evaluation, dismissal, or discipline of an officer or employee or of charges brought against the officer or employee, where consideration of matters affecting privacy will be involved; and/or 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.

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 Cyber Security that involves Information Security, Technology Risk Management, and the protection of Employees' Retirement System Information Assets.
2. Executive Session, pursuant to HRS §92-5(a)(4) and (6), to consider and consult with the Internal Auditors and 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 Internal Audit Resource Reallocation.
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 the Risk Dashboard that involves Cyber Security, Information Security, Technology Risk Management, Security Vulnerabilities, and related Mitigation Activities.

ADJOURNMENT

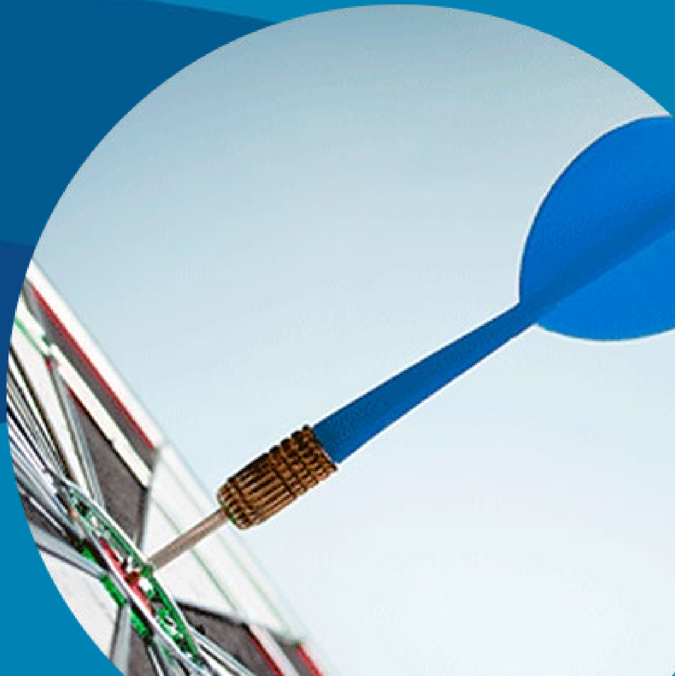
If you require auxiliary aid/service or other accommodation due to a disability, please contact Dale Kehau Kanae at (808) 586-1706 or dale.kanae@hawaii.gov as soon as possible, preferably by Thursday, July 2, 2026, and the ERS will try to obtain the auxiliary aid/service or accommodation, but cannot guarantee that the request will be fulfilled.

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

Employees’ Retirement System of the State of Hawaii

Mid-Year Update

July 2026



Legislation – Act 134 (SLH 2026 - SB3096)

- Act 134 (SLH 2026 - SB3096 SD1 HD1 CD1)
  - Increases the employer contribution rate on behalf of police and fire employees to 44% of payroll beginning July 1, 2027
  - Impact of these contribution rate increases will be reflected in the June 30, 2026 actuarial valuation
- The increased contribution rate for Police and Fire is expected to shorten the amortization period as of June 30, 2026 for that group from 23 years to 20 years
  - This is expected to produce approximately $590 million in contribution savings over the 23-year period

GRS

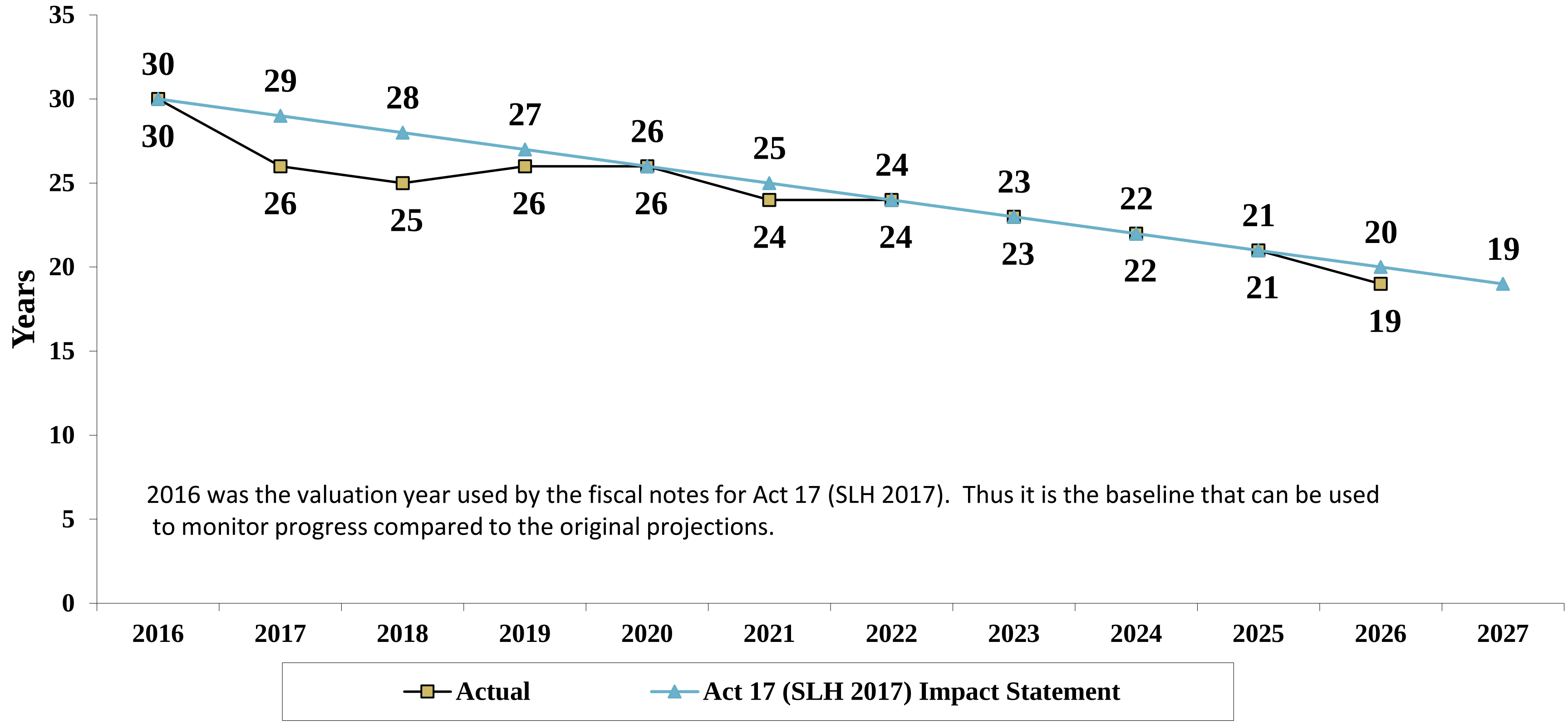
Projected 2026 Actuarial Valuation Results

Valuation Year	2023	2024	2025	2026**
UAAL ($ Billions)	$13.71	$14.01	$14.41	$14.32
Actuarial Funded Ratio	62.2%	63.0%	63.6%	65.1%
Funding Period in years*	23	22	21	**19**

*Based on open group projection, recognizing new benefits for members hired after June 30, 2012
**Assumes 9.5% FY26 market return and all of other assumptions met. Reflects increased employer contribution rates effective July 1, 2027 for Police and Fire enacted under Act 134 (SLH 2026).

GRS

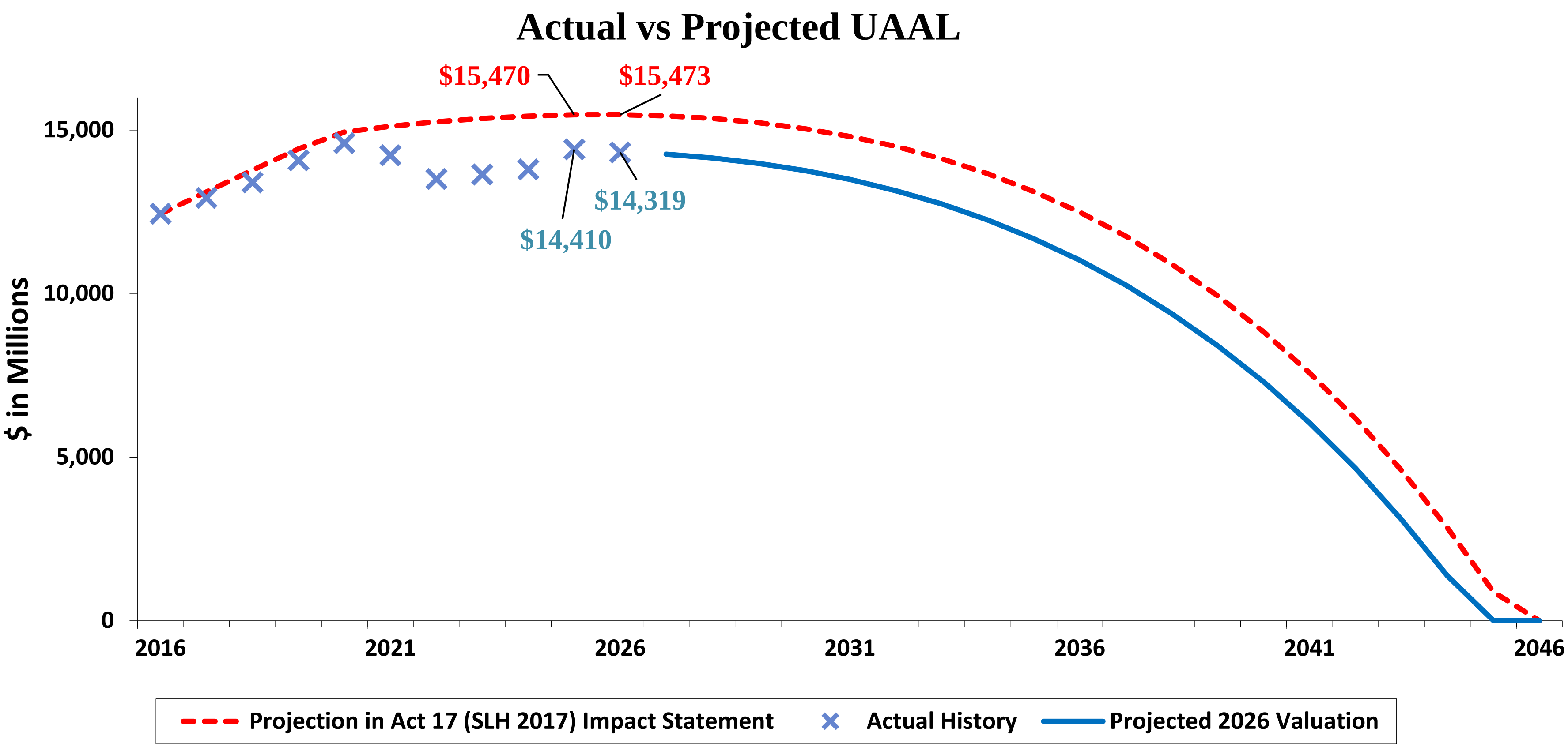
Projection of Funding Period from 2016 Legislative Impact Statement vs Actual Valuation Outcomes



Actual 2026 is estimated based on 9.5% FY26 market return and all other assumptions met

Reflects increased employer contribution rates effective July 1, 2027 for Police and Fire enacted under Act 134 (SLH 2026)

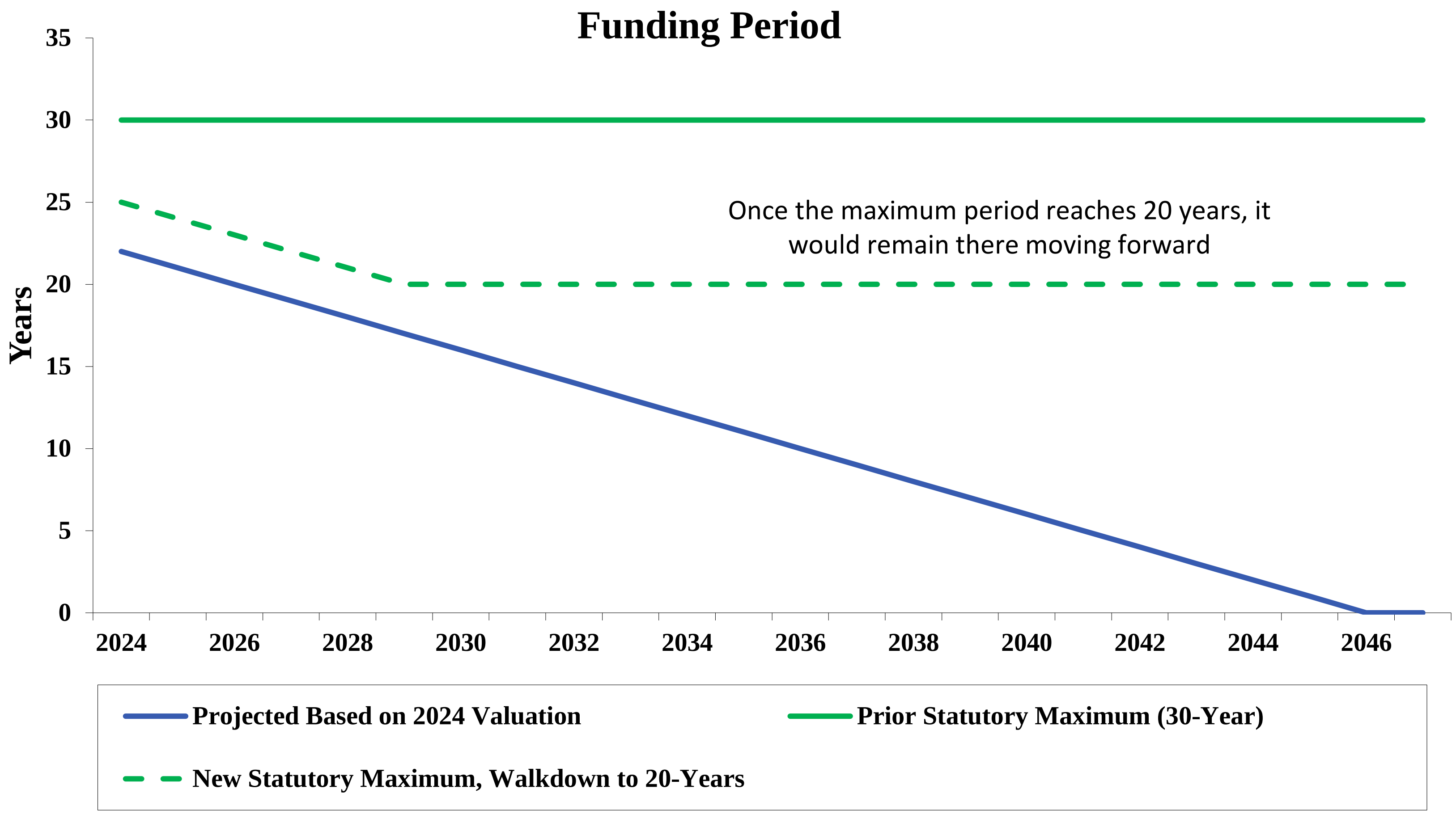
In the absence of liability losses, the UAAL is expected to decrease in dollars when compared to last year. It was expected to slightly increase.



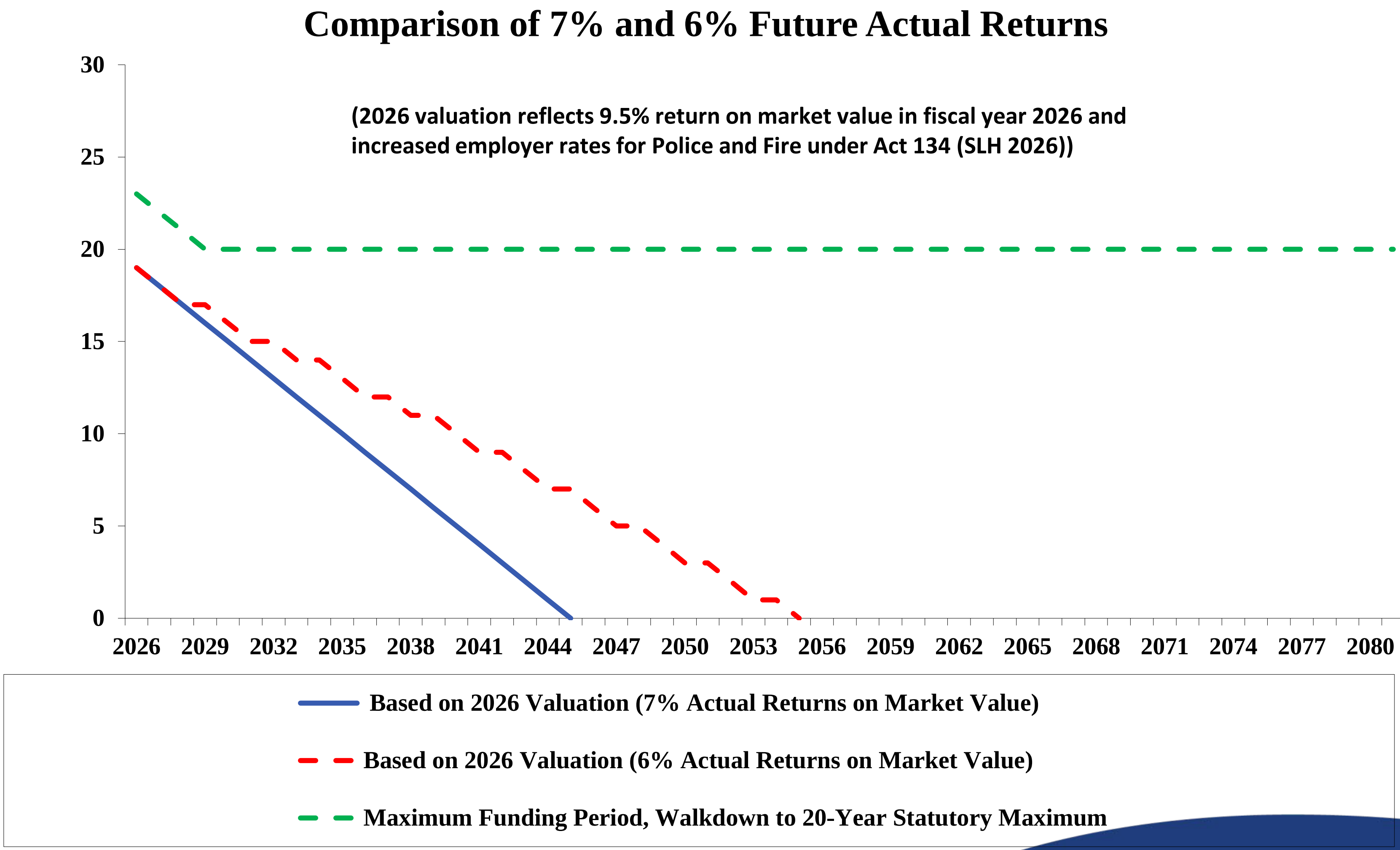
Projected 2026 Valuation is estimated based on 9.5% FY26 market return and all other assumptions met, and it also reflects increased employer contribution rates effective July 1, 2027 for Police and Fire enacted under Act 134 (SLH 2026)

GRS

Maximum funding period was set to 25 years as of 2024 and decreases by 1 each year until it reaches 20 years



Even a 6% return achieves full funding by 2055. ERS is not expected to breach the 20-year Maximum as long as ERS achieves 5% returns or better



Summary

- The funded ratio is projected to increase and the funding period is projected to decrease by 2 years
- The System has entered positive amortization (UAAL is now expected to decrease each year)
- These results reflect $32.5 million in FY 2026 contributions on Temporary Hazardous Duty payments included in the June 30, 2025 actuarial valuation
- Additional liabilities related to Temporary Hazardous Duty payments due to recalculated retirement benefits will be reflected when they are known
- The disciplined commitment to follow the contribution schedule from Act 17 (SLH 2017) continues the process of strengthening the financial outlook for ERS. It is imperative that current contribution levels remain in place throughout the amortization period.

GRS

KMHLLP

Employees' Retirement System Internal Audit

Administrative & Audit Committee Update Report

July 8, 2026

Employees' Retirement System of the State of Hawaii

Table of Contents

Executive Summary

Executive Summary

Administrative and Other Matters

- Internal Audit ("IA") continues to regularly meet with Executive Management to keep them apprised of current and upcoming IA projects and discuss new or updated needs of the organization. Most recently met with the Executive Director and Interim Deputy Executive Director in June 2026 and have established periodic status meetings.
- Continue to meet with the Chief Compliance Officer ("CCO") on a weekly basis to stay apprised on current ERS and CCO initiatives, including the V3locity Migration and Governance, Risk, and Compliance ("GRC") Tool implementation projects. Also discussed at weekly meetings are emerging risk areas, challenges and issues, and upcoming events and other matters.
- IA has concerns regarding increasing delays in request fulfillment and management availability and responsiveness, which are impairing our ability to effectively carry out our responsibilities. Continued lack of timely engagement from management will impede IA's capacity to operate in accordance with its Audit Plan.
- Given ERS' expanding number of competing priorities, initiatives and limited available resources, IA requires clear strategic direction to ensure its resources are aligned with areas of highest organizational value and impact. Requesting further discussion on this in Executive Session.

Status on Current Projects:

Contracting & Procurement Review

- IA deferred the project indefinitely due to ongoing delays impacting project timelines.
- IA had conducted periodic status meetings with the auditee; however, project timelines continued to be extended. Management was unable to provide the contracts and procurements requested for review.
- Relevant objectives and test procedures have been developed that can be leveraged to efficiently resume the project once the area stabilizes.

Executive Summary (cont'd)

Status on Current Projects (cont'd):

Benefit Claims & Refund and Retiree Overpayments Processing Review

- Initiated planning activities and conducted multiple walkthroughs with the Retirement Benefits Branch to obtain an understanding of benefit claims, overpayment scenarios, and related internal processes.
- Identified key process flows and areas of risk associated with claims processing and overpayment handling. Documented current-state procedures and scenarios to support risk assessment and development of audit procedures.

Virtual Information Security Officer (vISO) Initiative

- As of June 1, 2026, responsibility for the vISO initiative has transitioned to RSM US LLP ("RSM") and is currently covered under their contract with the ERS.
- vISO continuing to provide support to the Information Systems ("I/S") Branch and hold periodic meetings with the State Chief Information Security Officer, Information Technology Manager and I/S branch staff.
- Security Steering Committee continues to meet monthly to discuss findings remediation status and cyber security risks.
- IT-related findings remediation status will be presented during Executive Session.

Optro (GRC Tool) Management Training

- Management-level training on ERS' GRC tool was delivered on June 18, with tailored branch-specific sessions following throughout the week of June 29.
- The tool will serve as the centralized repository for tracking and updating open internal audit findings, compliance and enterprise risk management and compliance risks, and referencing applicable HRS and HAR provisions.

2026 Internal Audit Plan Results Summary

2026 Internal Audit Plan Results Summary

Employees' Retirement System of the State of Hawaii

Internal Audit Plan (Approved by A&AC in February 2026)

Internal Audit Plan Period: January 1, 2026 through December 31, 2026																
	Q1 2026			Q2 2026			Q3 2026			Q4 2026			Hours			
PROJECT	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Budget	Actual	ETC	Variance
Carryover Projects																
Contracting & Procurement Review													200	45	-	(155)
Benefit Claims & Refund and Retiree Overpayments Processing Review													375	151	224	-
Member/Retiree Record Processing, Retention, and Storage													350	20	330	-
Assurance																
Biennial Follow-Up Review													300	22	278	-
Investment Management, Monitoring & Performance Evaluation													450	-	450	-
Advisory & Other																
V3locity Assessment and Updates													250	14	150	(86)
Extension of vISO Initiative - Roadmap Implementation													275	310	-	35
IA Recommendation & Implementation Assistance													100	-	100	-
Risk Assessment Re-Evaluation & Two-Year Audit Plan													250	-	250	-
Compliance Office Collaboration and Assistance													150	80	70	-
Reporting, Communication and Other Administration													350	198	152	-
Total Hours													**3,050**	**840**	**2,004**	**(206)**

Project Start Date

In Process

Draft Report Issued - Pending Mgmt Responses and/or A&AC Approval

Completed - Final Report or Deliverable Issued

Advisory & 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 May 31, 2026
ETC: Estimated Time to Complete
Variance: [(Actual + ETC) - Budget] = over / (under) budget

Management Action Dashboard

Management Action Dashboard

The following represents the status of IA reviews with uncleared or overdue findings and recommendations. For IT-related review findings and recommendations, ERS' vISO and IT Manager are responsible for tracking and monitoring remediation. Statuses provided by management on IT-related recommendations are presented in Executive Session due to the sensitivity of information around IT and cybersecurity.

Name of Review	Contact	Overall Rating[1]	Total Number of Findings	Number of Findings Ranked: "High"	"Moderate" or "Medium"	"Low"	Completion Status (Only "High" and "Moderate" / "Medium" findings were tracked for the first four projects listed below): 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	10	0	0	0	2	0
Financial Reporting Process Review	Accounting Manager	Marginal	5	1	4	0	2	0	0	0	3	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	0	0	5	0
Employer Communication & Reporting Review	Retirement Benefits Manager, Accounting Manager, Program Specialist	Marginal	3	0	2	1	2	0	0	0	1	0
Cloud Risk and Security Assessment - Phase 2	IT Manager	Unacceptable	5	4	1	0	0	0	0	0	5	0
Member Enrollment & Re-Enrollment Review	Retirement Benefits Manager, SSS Supervisor, IT Manager	Unacceptable	5	2	3	0	2	0	2	0	1	0
		TOTAL	**37**	**13**	**22**	**2**	**17**	**0**	**2**	**0**	**18**	**0**

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.

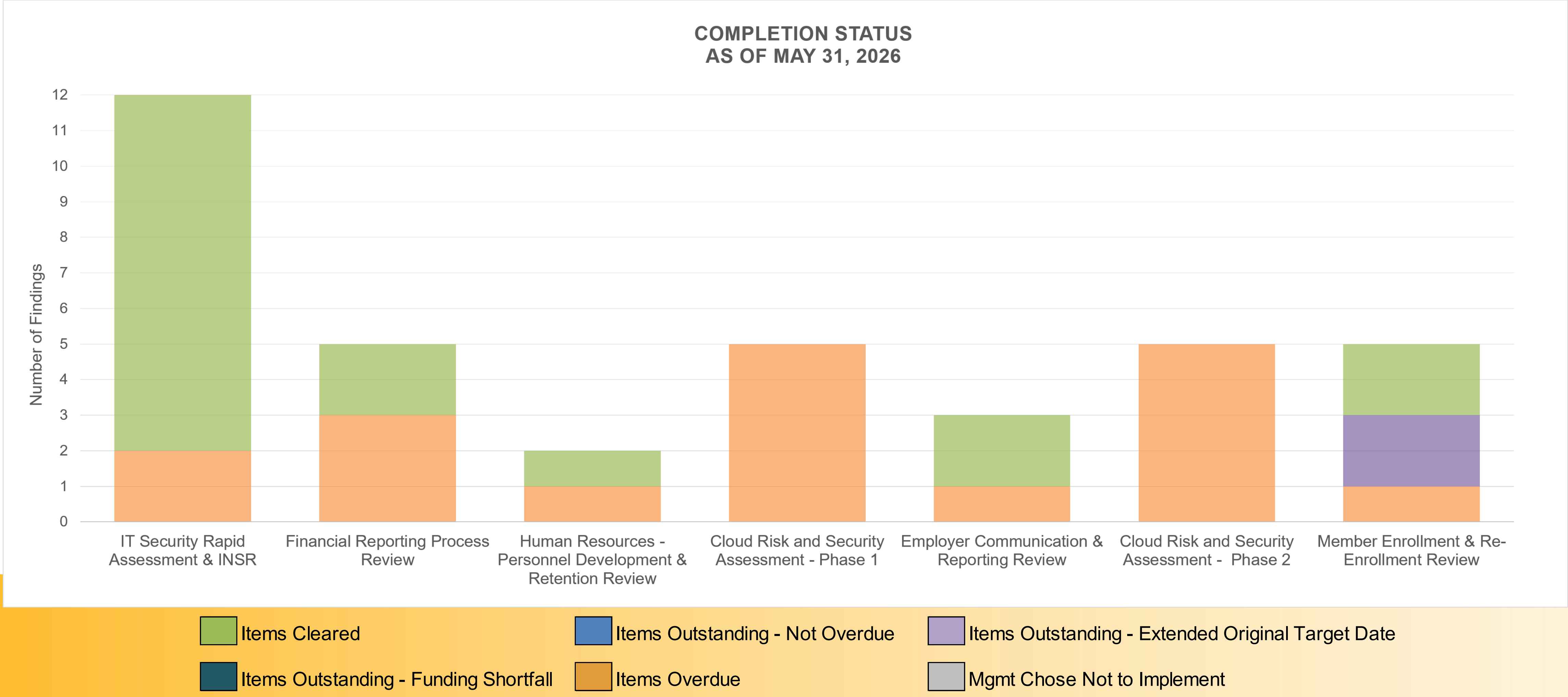
•**Marginal** – The area reviewed has control, policy, procedural, compliance and/or repeat findings that are sufficiently important to warrant the attention of more senior levels of management. Any deterioration in the current operating routine could lead to serious exposures and stakeholder criticisms. 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

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.



Cumulative Observation Analysis

Cumulative Observation Analysis

Based on the 15 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.

Report	Areas of Improvement			
	Oversight & Monitoring	Policies and/or Procedures	Obtaining Appropriate Resources	Developing Efficient Processes
IT Security Rapid Assessment & INSR	✓	✓	✓	
Cash & Liquidity Management Review	✓	✓	✓	
Disability Hearings and Contested Cases Review	✓	✓	✓	
Investment and Risk Monitoring and Reporting Review	✓	✓		✓
Financial Reporting Process Review	✓	✓	✓	✓
Investment Consultant Selection and Evaluation	✓			✓
Communications and Community Relations Review		✓	✓	✓
Human Resources - Personnel Development & Retention Review		✓	✓	
Cloud Risk and Security Assessment - Phase 1	✓	✓	✓	
Benefit Estimates & Final Benefit Calculation Processing Review			✓	
Employer Communication & Reporting Review	✓	✓		✓
Cloud Risk and Security Assessment - Phase 2	✓	✓	✓	✓
Member Enrollment & Re-Enrollment Review	✓	✓	✓	✓
Investment Manager Selection & Evaluation Review	✓			

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

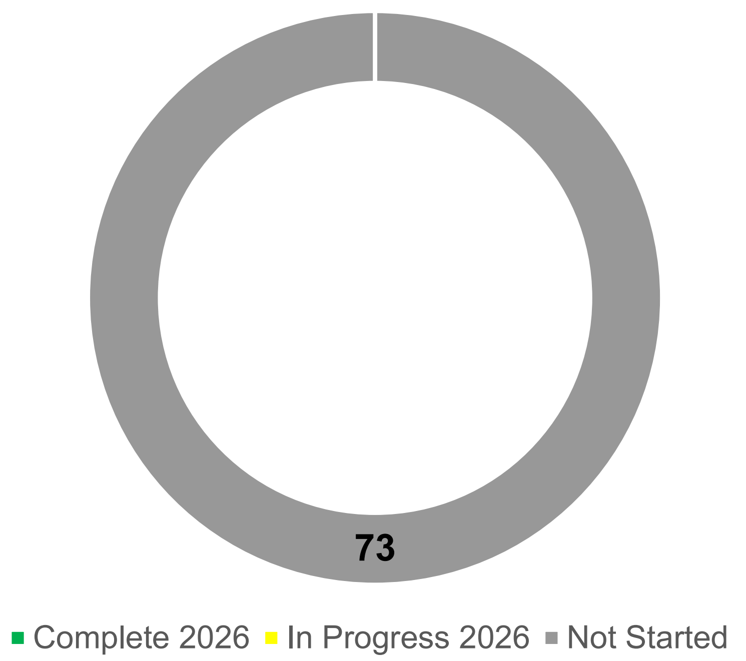
Internal Audit Findings Remediation Status

Internal Audit Findings Remediation Status (Non-IT)

The following summarizes the number and completion status of sub-tasks for remaining open non-IT internal audit findings. IA has defined the sub-tasks required to fully remediate each finding. Management will review and finalize the remediation sub-tasks this month, and progress will be tracked within ERS' GRC tool, Optro. Sub-task counts remain subject to change based on management feedback.

Findings	Remediation Sub-Tasks
Financial Reporting Process Review - FR-3 • Develop financial reporting framework and policies and procedures	7
Financial Reporting Process Review - FR-4 • Develop investment accounting policies, procedures, and training	7
Financial Reporting Process Review - FR-5 • Develop automated processes to detect common errors in employer submissions and enhance employer support through an ERS help line and training, including on-site employer sessions	15
Human Resources - Personnel Development and Retention Review - HR-2 • For Accounting Branch: Identify successor(s) and develop succession plan	7
Employer Communication & Reporting Framework Review - ECR-3 • Develop formal, consistent procedures to address employer-specific issues and complexities for reviewing and processing Work Reports by staff • Establish a plan for staff cross-training Work Reports Team staff	15
Member Enrollment & Re-Enrollment Process Review - ME-2 • Develop file management, organization and storage policies and procedures that align with the State or Hawaii Records Management Branch	7
Member Enrollment & Re-Enrollment Process Review - ME-5 • Develop Return to Work Transfers Log policies and procedures • Implement a periodic reconciliation of the Return to Work Transfers Log to a PAS report of return-to-work members (or a comparable report)	15
Total	**73**

Sub-Task Completion Status



Internal Audit Findings Remediation Status (cont'd)

Progress on sub-task completion by finding will be monitored and reported to the Administrative and Audit Committee at each meeting via this tracker. The target completion dates presented below reflect management's most recent estimates and are subject to change.

Risk ID	Task	Risk Level	Target Completion Date (Current)	Completed Sub-Tasks	In Progess Sub-Tasks	Not Started Sub-Tasks	Q3 2026	Q4 2026	Q1 2027
FR-3	Develop financial reporting framework and P&P	Medium	December 2026	0	0	7			
FR-4	Develop investment accounting training program and P&P	Medium	December 2026	0	0	7			
FR-5	Use IT to detect common errors in employer reporting and develop employer support program	Medium	TBD	0	0	15			
HR-2	Develop succession plan for Accounting Branch	Medium	June 2026	0	0	7			
ECR-3	Develop procedures for Work Reports processing and establish staff cross-training program	Medium	TBD	0	0	15			
ME-2	Develop record management P&P	High	November 2026	0	0	7			
ME-5	Develop Return to Work Transfers Log P&P and reconciliation control	Medium	June 2026	0	0	15			

Issued Reports Finding Status

Pages 17 to 24 represent 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.

Issued Report Finding Status

On a go-forward basis, statuses **provided by management on IT-related recommendations** will be presented in Executive Session due to the sensitivity of information around IT and cybersecurity. ERS' vISO will lead this presentation. Remediation status updates from the following reports will be covered:

- IT Security Rapid Assessment & Internal Network Security Review ("INSR")
- Cloud Risk and Security Assessment - Phase 1
- Cloud Risk and Security Assessment - Phase 2
- Member Enrollment & Re-Enrollment Process Review (Finding No. 4 Only)

Issued Report Finding Status (continued)

Financial Reporting Process Review	
Finding	**Finding 3** – Financial reporting policies and procedures have not been reviewed or updated since the 1990s.
Recommendation	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 ACFR (formerly CAFR) preparation ▪ Monthly financial statement activities ▪ Financial statement preparation and distribution ▪ Management reports (internal)
Rating	Moderate
Target Completion Date(s)	June 2020 (Revised #1 Target Date: December 2021); (Revised #2 Target Date: December 2024); (Revised #3 Target Date: December 2025); **(Revised #4 Target Date: December 2026)**
Status – Provided by Management	**Outstanding – Overdue** – ERS will seek the necessary resources to assist in the development of policies, procedures, and related training.

Issued Report Finding Status (continued)

Financial Reporting Process Review	
Finding	**Finding 4** – Accounting policies and procedures have not been adjusted to maintain alignment with the changing Investment Policy and shifts in the investment portfolio.
Recommendation	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 Accounting Branch personnel to on-site due diligence visits for select high valuation risk investments.
Rating	Moderate
Target Completion Date(s)	June 2020 (Revised #1 Target Date: December 2021); (Revised #2 Target Date: December 2024); (Revised #3 Target Date: December 2025); **(Revised #4 Target Date: December 2026)**
Status – Provided by Management	**Outstanding – Overdue** – The Investment Office and Accounting Branch actively work together, with staff attending the weekly investment meeting and completing investment documentation. ERS is in the process of converting the accounting book of record from a combination of Custodian Bank and Investment Manager for Investments, to all investment reporting from the Custodian Bank. This includes implementing automated financial reporting process and reconciliation tools for investments with ERS custodian bank. This will be effective with reporting periods from July 1, 2026, for FY 2027.

Issued Report Finding Status (continued)

Financial Reporting Process Review	
Finding	**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.
Recommendation	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.
Rating	Moderate
Target Completion Date(s)	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.
Status – Provided by Management	**Outstanding – Overdue** – ERS (with KMH team assisting with Act 87 requirements) continues to meet and work 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. to complete the compliance reporting requirements per Act 87. Limited ERS and employer resources hinders both parties in implementing the audit recommendations identified. 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.

Issued Report Finding Status (continued)

Human Resources – Personnel Development and Retention Review	
Finding	**Finding 2** – The ERS can improve its succession planning processes by incorporating "Succession Management" into their plans.
Recommendation	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 2) Detailed developmental planning (training, coaching and mentoring) 3) Knowledge transfer and management practices
Rating	Medium
Target Completion Date(s)	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); (Revised #5 Target Date: June 2025); (Revised #6 Target Date: December 2025); **(Revised #7 Target Date: June 2026)**
Status – Provided by Management	**Outstanding – Overdue** – For the Accounting Branch, potential successors have been identified by ERS. Training plan/development steps to be documented by March 2026, with training to be completed by June 2026. Future training to be included in personnel performance appraisals.

Issued Report Finding Status (continued)

Employer Communication & Reporting Framework	
Finding	**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 Team staff are also not currently cross-trained to process and review an employer agency or department they are currently not assigned to.
Recommendation	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 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.
Rating	Low
Target Completion Date(s)	December 2023 (Revised #1 Target Date: December 2024); (Revised #2 Target Date: December 2025); **(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.
Status – Provided by Management	**Outstanding – Overdue** – Effective date may need to be revised due to increased staff vacancies, and the V3locity migration project. It is difficult to determine a target date for actual implementation. Cross training in Accounting's work report processing has occurred for all employer reports, although formalized procedures are still being worked on and revised by the team member who was cross trained. Delays in documenting procedures are expected to continue due to leaves, increased staff vacancy, delays in B&F Hiring process and V3locity Migration project. KMH LLP was contracted to assist ERS with internal compliance testing of employers' payroll and personnel reporting. Accounting and RBB are currently working with KMH LLP on the audit criteria and procedures to review payroll reporting from employers for compliance with Act 87 requirements that are effective in July 2024. Accounting requested two Account Clerk V positions to be converted to Accountant III positions in order to hire staff with a higher skillset to understand employer payroll systems and perform employer outreach. Further, there continues to be 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. In October 2025, ERS received approval to reclassify two Account Clerk V positions to Accountant III positions for the Work Report Team. Several ERS human resource actions are pending with Budget and Finance in order to fill vacant positions.

Issued Report Finding Status (continued)

Member Enrollment & Re-Enrollment Process Review	
Finding	**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.
Recommendation	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, organization and storage. These should include the file management process designed after consulting with the State of Hawaii Records Management Branch.
Rating	High
Target Completion Date(s)	June 2025 (Revised #1 Target Date: November 2025); **(Revised #2 Target Date: September 2026)**
Status – Provided by Management	**Outstanding – Extended Original Target Date** – The CCO is in the process of developing a records file management, organization, storage, retention and disposal policy in compliance with State of Hawaii records management policy. SSS, IT, RBB and the CCO will then work on the development of branch-specific policies and procedures that address file management, organization and storage.

Issued Report Finding Status (continued)

Member Enrollment & Re-Enrollment Process Review	
Finding	**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.
Recommendation	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.
Rating	Medium
Target Completion Date(s)	November 2024, February 2025 (Revised #1 Target Date: November 2025); (Revised #2 Target Date: December 2025); **(Revised #3 Target Date: June 2026)**
Status – Provided by Management	**Outstanding – Overdue** – Change in plans since WF is unable to develop this. Looking into using the CCR and the PIF to compare data to derive a report to be reviewed. In addition, Data Cleansing is currently being developed as part of our pre-migration for our PAS. Reports will be generated for review of potential miscoding of RTW members.

Employees' Retirement System of the State of Hawaii

Compliance Quarterly Update
Kona Mann
July 8, 2026

Executive Summary:

This is the CCO's quarterly update. Report is being presented for Committee's awareness & discussion.

Key Highlights

- Compliance & Risk Management (RM) Activities: RM Dashboard & Program Advancement; Security Policy Development; AuditBoard/Optro Training & Implementation; Procurement of Data & Analytics Consulting Services; ERS Modernization Project Management & Support.
  - These key initiatives are currently underway.
  - These projects and initiatives are designed to enhance ERS' compliance, security and resilience posture.

Next Steps

- Actively manage outcomes and progress related to the Risk & Resiliency contract (vISO (policy development, disaster recovery, incident response), Enterprise Risk Management (risk assessment), Business Continuity Planning, Auditboard/Optro Customization).
- Establish Risk Management Policies and Procedures
- Finalize procurement of Data and Analytics Consulting Services.
- Begin migration contract discussions with Vitech/Majecso and manage project outcomes.

ERS Compliance & Risk Management Program

- **Security Policy Development & Road Mapping**:

  The vISO, myself and the IS team are working through the next stack of security policies (Cloud Computing, Data Backup, Asset Mgmt.). The vISO and I continue to have our regular cadenced progress meetings with the IS branch. We continue our efforts to ensure accurate timelines for addressing and resolving outstanding IA findings as well as developing the next phase of RoadMap Activities.

- **AuditBoard Implementation Project**:

  Implementation of **AuditBoard**, ERS' new GRC (Governance, Risk, and Compliance) platform continues. Training for branch chiefs have been scheduled and we can expect a roll-out of the system to follow. This system will provide greater visibility, consistency in the governance, management, oversight and reporting of risk related operational activities.

- **Procurement of Data and Analytics Consulting Services:**

  The year (1) key objectives are to drive organizational awareness, develop data literacy curriculum, and implement executable policies, processes, and controls.

- **ERS Modernization Project Management**:

  A team is in place to manage our migration to V3locity with as minimal operational disruption as possible. Risk, business process improvement, change management, data assessments are embedded into project planning with our PM (Linea) to support effective governance and outcomes.

Employees' Retirement System
of the State of Hawaii

ERS Modernization Project

Overall Project Status

- **Program governance established and migration planning continues.** Primary efforts remain focused on contract execution, migration readiness, organizational preparation, and governance needed to begin implementation.

Progress Since Last Update

- Governance and executive oversight framework implemented.
- Branch ownership and accountability being established.
- Migration contract negotiations progressing toward execution.
- Organizational readiness activities underway.

Key Outstanding Activities

Priority	*Status*
Execute Migration MSSA & SOW	In Progress
Finalize Migration Schedule	Pending Contract Execution
Complete Modernization Activities	Ongoing
Continue Branch Readiness & Governance	Ongoing
Finalize Test Candidate / Aquarius Strategy	In Progress

Employees' Retirement System
of the State of Hawaii

ERS Modernization Project - Critical Activities

- **Majesco Migration**
  - MSSA and Migration SOW remain under review with Ice Miller supporting contract review.
  - Contract accountability and decision escalation framework implemented to improve business participation.
  - Outstanding business and contractual terms continue to be negotiated prior to execution.
- **Vendor Coordination**
  - Ongoing executive engagement with Majesco to finalize migration approach, implementation schedule, and business terms.
- **Linea Readiness Activities**
  - Business Process Improvement
  - Organizational Change Management
  - Enterprise Architecture
  - Training Strategy
  - Migration readiness planning

All Linea workstreams remain aligned and resourced to support pre-migration and migration activities.

ERS Modernization Project - Executive Focus

- **Management Remains Focused On:**
  - Finalizing migration contracts and implementation planning.
  - Maintaining governance, executive oversight, and vendor accountability.
  - Advancing organizational readiness through business process improvement, training, and change management.
  - Evaluating staffing capacity, resource allocation, and workload prioritization to support both daily operations and migration activities.
  - Identifying opportunities to augment specialized expertise where appropriate while minimizing operational disruption.
- **Organizational Readiness:**

As migration planning advances, management continues to assess organizational capacity to ensure implementation activities can be successfully executed while maintaining uninterrupted service to members, employers, and retirees. Current efforts include evaluating staffing priorities, resource allocation, operational workload, and targeted vendor support to position ERS for a successful implementation.

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

FEBRUARY 11, 2026

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

Trustees present: (City Financial Tower by teleconference)	Mr. David Louie, Chair* Dr. Seth Colby, Vice Chair* Ms. Darlene Blakeney* Mr. Bennett Yap* Mr. Vincent Barfield*
Staff present: (City Financial Tower by teleconference)	Mr. Kalbert Young, Executive Director* Ms. Gail Strohl, Deputy Executive Director* Ms. Kristin Varela, Chief Investment Officer* Mr. Kona Mann, Chief Compliance Officer* Mr. James Greubel, Program Specialist* Ms. Shanna Sakagawa, Program Specialist* Mr. Keith Miyamoto, Information Systems Branch Manager* Ms. Dale Kehau Kanae, Recording Secretary/Administrative Assistant* Ms. Lori Kim, Administrative Assistant* Ms. Andrea Gasper, Administrative Assistant*
Attorneys present: (by teleconference)	Ms. Jenny Nakamoto, Deputy Attorney General* Ms. Diane Wong, Deputy Attorney General*
Guests present: (City Financial Tower by teleconference)	Mr. Peter Hanashiro, KMH LLP* Mr. Tyson Suehiro, KMH LLP* Mr. Charles "Chuck" John, RSM US LLP Mr. Alfred Ko, RSM US LLP* Mr. Ty Smith, RSM US LLP*
Public present:	Mr. Ryan Kagimoto
	*Attended Executive Session

QUORUM/CALL TO ORDER

A quorum being present (Trustees Colby, Louie, and Yap), and there being all new Trustees as Committee members, none returning from 2025, Trustee Yap called the meeting of the Administrative and Audit Committee (Committee) of the Board of Trustees (Board) of the Employees' Retirement System of the State of Hawaii (ERS) to order at 1:00 p.m. and requested Trustees attending remotely confirm that they are the only ones present at their remote location while attending the meeting. Each of the Trustees present confirmed same. Trustee Yap reminded the Committee to please be sure that they are visible on their video cameras and that they remain on while the meeting is in session. Trustee Barfield also attended the meeting by teleconference but did not participate in either deliberation or voting.

PUBLIC COMMENT

Trustee Yap called for public comment. There was no public present in person, however, one (1) member of the public attended by teleconference and had no comment. There was also no written public testimony received for this Committee meeting.

Before presenting the first agenda item, Trustee Yap announced that he will be retiring effective March 1, 2026, relinquishing his seat on the Board, and his last day will be the close of business February 27, 2026.

DISCUSSION AND ELECTION OF CHAIR AND VICE CHAIR OF THE ADMINISTRATIVE AND AUDIT COMMITTEE

Trustee Yap presented for discussion by the Committee, the election of Chair and Vice Chair of the Administrative and Audit Committee. Trustee Yap nominated Trustee David Louie as Chair, Trustee Louie offered Trustee Seth Colby to be Chair. Trustee Colby suggested that Trustee Louie be Chair and he would be Vice Chair.

On a motion made by Trustee Yap, seconded by Trustee Colby, and unanimously carried, the Committee approved Trustee Louie as Chair and Trustee Colby as Vice Chair.

Newly elected Chair Louie presided over the remainder of the meeting.

(Trustee Darlene Blakeney joined the meeting by teleconference at 1:03 p.m. and verified that she was the only one present at her remote location and that no one else was able to listen in on the teleconference while she attended the meeting.)

REVIEW AND DISCUSS REVISIONS TO THE ADMINISTRATIVE AND AUDIT COMMITTEE, INTERNAL AUDIT, AND ETHICS COMPLIANCE CHARTERS TO INCLUDE ADMINISTRATIVE AND AUDIT COMMITTEE PERFORMANCE ASSESSMENT

Chair Louie, presented for review, discussion, and approval by the Committee the Administrative and Audit Committee, Internal Audit, and Ethics Compliance Charters. The Committee had no changes to the Charters. A Committee Review for the period January to December 2025 was also provided by Executive Director Kalbert Young for the Committee's information.

On a motion made by Trustee Yap, seconded by Chair Louie, and unanimously carried, the Committee accepted the Administrative and Audit Committee, Internal Audit, and Ethics Compliance Charters as presented with no changes, that will be presented to the Board for approval at its next meeting.

INTERNAL AUDIT UPDATE REPORT BY KMH LLP ON THE PROPOSED UPDATES TO THE 2026 INTERNAL AUDIT PLAN, THE CURRENT STATUS OF ACTIVITIES COMPLETED DURING Q4, 2025, AND AN UPDATE ON THE COMPLETION STATUS OF MANAGEMENT ACTION PLANS FOR PAST NON-INFORMATIONAL TECHNOLOGY INTERNAL AUDIT OBSERVATIONS AND RECOMMENDATIONS

KMH LLP's (KMH) Tyson Suehiro (attended in person) and Peter Hanashiro, and RSM US LLP's (RSM) Alfred Ko, Ty Smith, and Chuck John attended the meeting by teleconference, introduced themselves and gave the Committee a brief background on KMH and RSM, and presented an oral and written report to the Committee of KMH's Internal Audit Update Report on the Proposed Updates to the 2026 Internal Audit Plan, the Current Status of Activities Completed During Q4, 2025, and an Update on the Completion Status of Management Action Plans for Past Non-Informational Technology Internal Audit Observations and Recommendations and discussed in summary:

<u>INTERNAL AUDIT UPDATE REPORT</u>
EXECUTIVE SUMMARY
Administrative and Other Matters
Status on Current Projects

- Contracting & Procurement Review
- Business Continuity Plan – Tabletop Exercise
- Virtual Information Security Officer (vISO) Initiative – Roadmap Implementation
- 2026 Internal Audit Plan Update Process

2026 INTERNAL AUDIT PLAN RESULTS SUMMARY
2025 INTERNAL AUDIT PLAN – PROPOSED UPDATES

INTERNAL AUDIT UPDATE REPORT BY KMH LLP ON THE PROPOSED UPDATES TO THE 2026 INTERNAL AUDIT PLAN, THE CURRENT STATUS OF ACTIVITIES COMPLETED DURING Q4, 2025, AND AN UPDATE ON THE COMPLETION STATUS OF MANAGEMENT ACTION PLANS FOR PAST NON-INFORMATIONAL TECHNOLOGY INTERNAL AUDIT OBSERVATIONS AND RECOMMENDATIONS (CONT'D)

MANAGEMENT ACTION DASHBOARD
MANAGEMENT ACTION PLANS – COMPLETION STATUS
CUMULATIVE OBSERVATION ANALYSIS
ISSUED REPORTS FINDING STATUS

The Committee's primary interest of and of most concern are matters regarding IT and Cyber Security which are of major risks to the organization. Chair Louie requested RSM provide the Committee information on their background of audits for other County or State pension plans and their experience of years with pension plans that they've provided on Cyber Security audits. RSM's Alfred Ko commented, as an extension of KMH's contract, RSM provides vISO Initiatives outside of the Internal Audit and will discuss details in executive session.

KMH's Mr. Hanashiro informed the Committee that they and RSM, as a practice, have met with previous Committee Chairs to review reports being presented prior to any meetings and are also available to meet with any Committee members, if requested. The Trustees of the Committee, being that they are all new, requested to have meetings scheduled with KMH, RSM, and ERS staff to better understand the reports and to allow further discussions and questions.

On a motion made by Trustee Yap, seconded by Chair Louie, and unanimously carried, the Committee accepted KMH LLP's 2026 Internal Audit Plan with Proposed Updates, as presented, and recommended it be presented to the Board for approval at the next Board meeting.

2025 BUSINESS CONTINUITY PLAN TABLETOP EXERCISE AFTER-ACTION REPORT BY KMH LLP

RSM's Charles "Chuck" John presented an oral and written report to the Committee of the 2025 Business Continuity Plan Tabletop Exercise After-Action Report and discussed in summary:

EFFORT/BENEFIT ANALYSIS OF INITIATIVES
Recommendations

The report was provided for the Committee's information, and no action was required.

After his presentation, Mr. John left the meeting by ending his teleconference.

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

Chief Compliance Officer Kona Mann gave a brief background of his position and Compliance Support before presenting 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 & RISK MANAGEMENT PROGRAM
IT Policy Development & Road Mapping
AuditBoard Implementation Project
Procurement of Risk and Resilience Managed Services
Procurement of Data and Analytics Consulting Services
Migration Project Management

This staff report and update was provided for the Committee's information, and no action was required. This report will also be presented at the next Board Meeting.

APPROVAL OF MINUTES - OCTOBER 20, 2025

Before approving the minutes, Trustee Yap reiterated, as stated on the last paragraph of page 2 of the minutes, that executive management needs to take responsibility for outstanding Audit items identified with timely solutions to the findings.

On a motion made by Trustee Yap, seconded by Chair Louie and unanimously carried, the Committee approved the minutes of the October 20, 2025, meeting as presented.

PUBLIC COMMENT

Chair Louie again called for public comment. There was no public present in person, however, one (1) member of the public attended by teleconference and had no comment.

(Chair Louie identified all the participants in Executive Session, the Board, ERS Staff, Deputy Attorneys General, and Guests are identified with an asterisk on these minutes and listed on the Executive Session Minutes. Participants of Executive Session met virtually in a separate breakout room while public participants remained in the main room.

Chair Louie 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; Enterprise Risk Management Updates; Business Continuity Plan; and-to make a decision on the Approval of Executive Session Minutes.)

ENTER EXECUTIVE SESSION

On a motion made by Vice Chair Colby, seconded by Trustee Blakeney, and unanimously carried, the Committee entered into Executive Session at 2:12 p.m.

(Chair Louie 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 Administrative Assistant 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.)

- 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)(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 Employees' Retirement System Risk Dashboard.
- Pursuant to HRS §92-5 (a)(8), to review and approve Executive Session Minutes of October 20, 2025.

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)(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 EMPLOYEES' RETIREMENT SYSTEM RISK DASHBOARD	
EXECUTIVE SESSION PURSUANT TO HRS §92-5(a)(8), TO REVIEW AND APPROVE EXECUTIVE SESSION MINUTES OF OCTOBER 20, 2025	
EXIT EXECUTIVE SESSION	On a motion made by Trustee Yap, seconded by Chair Louie, and unanimously carried, the Committee exited Executive Session at 2:57 p.m. Participants of the Executive Session in the virtual breakout room were moved to the main room with the public participants. Chair Louie announced that while in Executive Session, the Committee discussed matters related to Updates on Cyber Security of which no action was taken. Due to time constraints, the matters related to Employees' Retirement System Risk Dashboard was deferred to the next meeting, and the Committee approved the Executive Session Minutes of October 20, 2025.
ADJOURNMENT	On a motion made by Trustee Blakeney, seconded by Trustee Yap, and unanimously carried, Chair Louie adjourned the meeting at 2:59 p.m.

REDACTED SIGNATURE

Kalbert Young
Executive Director

dkik