

# The Education Trust Board of New Mexico



THE HONORABLE SUSANA MARTINEZ  
GOVERNOR OF NEW MEXICO

DR. JOSÉ Z. GARCIA, CABINET SECRETARY  
NEW MEXICO HIGHER EDUCATION DEPARTMENT

BOARD MEMBERS  
DR. JOSÉ Z. GARCIA, CHAIRMAN  
ROBERT J. DESIDERIO, VICE-CHAIR  
ROBBIE HEYMAN, ESQ.  
TREVOR SERRAO

This is the APPROVED April 23, 2014 ETB  
meeting minutes and are the official minutes.

Meeting Minutes of April 23, 2014 2:00 p.m.

New Mexico Higher Education Dept., 2048 Galisteo St., Santa Fe, NM

## Board Members in Attendance

Dr. José Garcia - Chairman

## Board Members By Phone

Robert Desiderio – Vice Chairman  
Robbie Heyman – Member  
Trevor Serrao – Member

## Other Individuals in Attendance

Angela Gallegos - Board Secretary  
David Mathews - HED Attorney  
Chandler Kahawai – HED Executive Assistant  
Janet Pacheco - Morton, CliftonLarsonAllen LLP  
Matt Bone - CliftonLarsonAllen LLP  
Joel Blackman - CliftonLarsonAllen LLP  
Georgie Ortiz – CliftonLarsonAllen LLP (By Phone)  
Javier Machuca – REDW LLC  
Alan Demir – REDW LLC  
Yvonne Gonzales - Court Reporter

## Other Individuals in Attendance Via Webcast

Kevin Deiters - Executive Director  
Helen Atkeson - Partner, Hogan Lovells US LLP  
Jeremy Thiessen - Pension Consulting Alliance  
Bill Raynor - OppenheimerFunds  
Ken Henry - OppenheimerFunds

APPROVED

## **AGENDA**

### **1) CALL TO ORDER**

Vice Chairman Desiderio called the meeting to order at 2:08 p.m. Board Secretary Angela Gallegos called the roll and announced that three of four Board members were present and that a quorum existed. Dr. Garcia was not present.

### **2) PUBLIC COMMENT**

Vice Chairman Desiderio called for public comment. There was no public comment.

### **3) APPROVAL OF AGENDA**

Vice Chairman Desiderio called for a motion to approve the agenda.

Mr. Heyman moved to approve the agenda. Mr. Serrao seconded the motion and it was approved by unanimous consent.

### **4) MEETING MINUTES OF THE MARCH 12, 2014 BOARD MEETING – discussion and possible action**

Vice Chairman Desiderio called for a motion to approve the minutes of the meeting of March 12, 2014. The motion was made by Mr. Serrao and seconded by Mr. Heyman. The motion was approved by unanimous consent.

### **5) AUDIT CONTRACT – discussion and possible action – Kevin Deiters, Executive Director**

Vice Chairman Desiderio called on Kevin Deiters to give an overview of the RFP process.

Mr. Deiters stated that the Board issued a request for proposals (RFP) on February 13, 2014 from audit firms to perform annual financial and compliance audits of the Board's financial statements for the fiscal year ending June 30, 2014. The Board's current audit firm is REDW and they have completed three financial audits for the Education Trust Board and their term is up.

Mr. Deiters provided the Board with an overview of the RFP and the process for selecting an auditor. He said that the following firms submitted proposals by the March 13, 2014 deadline: Atkinson & Co., Ltd. (Albuquerque); Barraclough and Associates (Santa Fe); CliftonLarsonAllen (Albuquerque); and REDW, LLC (Albuquerque).

Mr. Deiters reported that the Evaluation Committee recommended to the Board that it interview REDW and CliftonLarsonAllen because both firms have the necessary experience and resources to effectively serve the Board. REDW was the only firm that had 529 experience.

Mr. Deiters advised the Board that they needed to make a decision today in order to make a recommendation to the State Auditor by May 15<sup>th</sup>.

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Mr. Deiters said that the two firms before the Board today, CliftonLarsonAllen will be the first firm making a presentation.

Mr. Heyman asked Mr. Deiters what is the role of the Board expected to do today; is it after listening to proposals and asking questions, select a firm and make a recommendation to the auditor. Or maybe the Board may want to negotiate some aspect of their proposal.

Mr. Deiters said that he would turn that question over to David and asked him if the Board could give instruction to negotiate a best and final offer.

Mr. Mathews responded yes. Mr. Mathews said that in looking at the evaluation committee's scoring, they took out the 529 plan experience and that there is only two other areas where they differ and the Board could negotiate best and final offer.

Vice Chair Desiderio announced to the Board that he would delay the presentations from the audit firms until the arrival of Dr. Garcia and he directed that the Board move on to agenda item #6 Program Manager Report.

#### 6) PROGRAM MANAGER REPORT

Vice Chairman Desiderio called on Mr. Raynor to provide a brief overview of the Plans' marketing report.

##### a. Marketing Report – Bill Raynor, OppenheimerFunds

Mr. Raynor summarized account and marketing information from the *OFI Private Investments – New Mexico 529 Quarterly Report for the Period Ending March 31, 2014*. He advised that the program had \$2.3 billion in assets under management and that both plans had positive flows.

Mr. Mathews announced to the Board that Chairman Garcia had joined the Board meeting. (2:26 p.m.)

Chairman Garcia called on Mr. Henry to provide the Board with the quarterly investment performance report.

##### b. Quarterly Investment Performance Report – Ken Henry, OppenheimerFunds

Mr. Ken Henry of OppenheimerFunds provided the Board with a summary of his report entitled *OFI Private Investments – The Education Plan & Scholar's Edge Portfolio Performance Report for the Period Ending March 31, 2014*.

Mr. Henry reported that the investment market during the first quarter, Federal Reserve slowing down or tapering their asset purchase program which impacted the market, particularly overseas markets. Overseas markets have negatively impacted the U.S. markets in January and the market recovered a bit by the end of the quarter.

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**5) AUDIT CONTRACT (Continued from earlier)**

Chairman Garcia announced that the Board will return to agenda item #5 - Audit Contract. Recess taken from 2:49 p.m. to 2:54 p.m. while the CliftonLarsonAllen audit firm was summoned from the reception area to give their presentation.

Chairman Garcia call upon CliftonLarsonAllen Audit Firm to make their presentation.

Ms. Janet Pacheco-Morton opened her presentation stating that she is a principal with CliftonLarsonAllen in their Albuquerque office and said that she was the second reviewer on the engagement which entails doing a second review of all engagement deliverables which would include financial statements as well as any review of any high-risk areas and compliance requirements. Georgie Ortiz who is on the phone will be leading the audit effort as the engagement principal. Joel Blackman will be the on-site engagement manager. Matt Bone will be the technical manager and assist the team throughout the engagement. Ana Maria Gonzales (not present) will be the senior engagement associate and will be responsible for the day-to-day activities during the course of the audit.

Ms. Pacheco-Morton explained in detail to the Board their firms qualifications and experience in their approach in completing the Board's audits on a timely basis. She stated that their firm has significant experience working with the State Auditor's office in New Mexico as well as the State Audit Rule and that they have been doing governmental audits for over 20 years. Mr. Pacheco-Morton stated that CliftonLarsonAllen is a top ten firm and that they have over 3,600 people nationwide in over 70 offices. Forty-five of those professionals are in the state of New Mexico in their Albuquerque office and that includes the Board's engagement team.

Mr. Bone reiterated Ms. Pacheco- Morton's emphasis on the importance that the Board have a firm that not only understands governmental audits, but understands how to do a governmental audit in the State of New Mexico.

Mr. Bone highlighted in their presentation the fact that their firm is currently working on the statewide comprehensive annual financial report for FY 2013. He said that further illustrates as testament to the experience and knowledge their firm has auditing agencies in the state of New Mexico. The state chose their firm to perform that audit for the first time for the State of New Mexico.

Mr. Blackman addressed the various governmental retirement systems that they audit and the similarities from the asset side of the Board's statement of position. He also talked about their approach to investments and fiduciary funds and understanding the Board's needs.

Mr. Blackman concluded his presentation by opening it up to questions.

Mr. Heyman asked about their firm's entry into New Mexico; when and how it happened.

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Ms. Pacheco-Morton responded that they have been doing governmental audits for over 20 years at various different firms and in 2011 they merged – Clifton, Gunderson with LarsonAllen at that time. She said that they have been doing business as CliftonLarsonAllen for the last three years in the state of New Mexico. Prior to that, they were Clifton, Gunderson for two years. In 2010 Meyners and Company merged into Clifton, Gunderson.

(Recess taken from 3:00 p.m. to 3:16 p.m.)

Alan Demir with the REDW Audit Firm began his presentation by talking about REDW's relationship with ETB and other players during the audit and their qualifications. He said that REDW has been a part of this community over 60 years and stated that their firm was the tenth largest CPA firm in the Southwest based in Albuquerque and that they also have a Phoenix office.

Javier Machuca introduced himself, and stated that he was the senior manager. He said that he started in public practice 19 years ago and that he has been dealing with the state for 15 of those 19 years and that the other four years were with the Navajo Nation tribal entities.

Mr. Demir stated that he has been in public accounting where he started with Price Waterhouse Coopers in Michigan's Detroit office for a couple of years. He said he later moved to Albuquerque and worked for Meyners, and then Clifton Gunderson, and currently is a manager in the assurance department at REDW.

Mr. Demir gave an overview of their firms qualifications. He said they have 180 plus employees which includes their Phoenix office. More than 80 of that group is specifically designated to the government and tribal type of entities that they audit and other consulting engagements and that they do about 80,000 plus hours every year of audit and consulting services to similar types of organizations.

Mr. Demir stated that they have CPA classes specifically targeted for state and local government as well as tribal governments and said that their team members are well trained and very knowledgeable. He emphasized that their firm has good knowledge and understanding of the SHARE system.

Dr. Garcia called for a motion for the Board to enter into an audit contract with REDW LLC and to accept their proposal to perform annual financial and compliance audits of the Board's financial statements for the fiscal year ending June 30, 2014 and to negotiate to a price reduction of \$225,000.00; with the option to renew the contract for two additional subsequent fiscal years.

The motion was made by Mr. Heyman and seconded by Vice Chairman Desiderio. The motion was approved by unanimous consent.

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7) **INVESTMENT CONSULTANT QUARTERLY REVIEW AND WATCH LIST** – discussion and possible action – Jeremy Thiessen, Pension Consulting Alliance, Inc.

Mr. Thiessen provided the Board with an overview of his April 18, 2014, memorandum entitled *“Watch” Status Update*. He recommended to the Board that it add the Vanguard Intermediate-term Bond Index Fund (VIBSX) and the Oppenheimer Equity Income Fund (OEIIX) to the Watch List due to acceptable short-and medium-term performance and to remove the Oppenheimer Main Street Small and Mid-Cap Fund from the Watch List due to improved performance. Mr. Thiessen provided the Board with an overview of the funds on the Watch List and he recommended that the following underlying funds remain on the Watch List:

1. Oppenheimer Value Fund (CGRYX);
2. MainStay MAP Fund (MUBFX);
3. Oppenheimer Main Street Small & Mid-Cap Fund (OPMYX);
4. Oppenheimer Rising Dividends Fund (OYRDX); and
5. Thornburg International Value Fund (TGVIX).

Chairman Garcia called for a motion to accept the investment consultant’s recommendation to remove the Oppenheimer Main Street Small and Mid-Cap Fund from the Watch List.

The motion was made by Mr. Serrao and seconded by Vice Chairman Desiderio. The motion was approved by unanimous consent.

Chairman Garcia called for a second motion to accept the investment consultant’s recommendation to add the Vanguard Intermediate-Term Bond Index Fund (VIBSX) and the Oppenheimer Equity Income Fund (OEIIX) to the Watch List and to keep the Oppenheimer Value Fund; the MainStay MAP Fund; the Oppenheimer Rising Dividends Fund; and the Thornburg International Value Fund on the Watch List.

The motion was made by Mr. Heyman and seconded by Mr. Serrao. The motion was approved by unanimous consent.

8) **EDUCATION TRUST BOARD SCHOLARSHIPS** – discussion and possible action – Kevin Deiters, Executive Director

Chairman Garcia reminded the Board that this agenda item was tabled at the March 12<sup>th</sup> Board meeting and he asked Mr. Deiters to review the proposed changes with the financial directors and to update the Board on those changes to the Education Trust Board scholarships.

Mr. Deiters provided the Board with an overview of his April 22, 2014, memorandum entitled *“Pathways Scholarship Program Proposal”*. Mr. Deiters said that the ETB staff conducted a survey using Survey Monkey of financial aid directors and administrators to learn about their understanding of the ETB; college savings; and the Pathways Scholarship Program. He said that surveys were sent to 32 financial directors and administrators and received 10 responses and the results are included in his report.

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Mr. Deiters said that what he learned from this survey is that the Board is not doing a very good job with the people that are actually handling financing at the community college and he explained the results. Mr. Deiters said that he had a conversation with Michelle at Esparza Advertising to put together an effort to meet with all the financial aid departments to make them aware of our programs and how they work and explained to the Board the process in detail.

Mr. Deiters said his new suggestion for the program is allow the award to first semester students or continuing students.

Chairman Garcia made a motion to accept the recommendation of the Executive Director to expand the eligibility requirements for Pathways Scholarships to include a 3.0 GPA for continuing students and to authorize the use of scholarship funds for the payment of tuition, fees, books, and supplies.

A motion was made by Mr. Heyman and seconded by Vice Chairman Desiderio. The motion was passed with unanimous consent.

Mr. Deiters reminded the Board that the Pathway Scholarship was suspended last year. He said that the Board has \$1,000,000 to spend for fall of 2014 because the Board had \$500,000 from last year that was not spent and \$500,000 from this year. Mr. Deiters recommended that the Board allocate \$750,000 to the colleges and the universities which would help meet our match for the College Access Challenge Grant based upon a percentage of their students with an estimated family contribution of \$1,000 or less.

The second proposal is to provide to allocate \$200,000 of the million to the Native American College Readiness initiative which would be administered by Higher Education Department (HED). HED would administer a college savings program and implement the rules. It basically provides for college savings accounts for seventh, eighth or ninth grade students.

Mr. Deiters said that the Board could work with OppenheimerFunds who has the experience in managing the accounts and the accounts would remain in the name of the Board. The student would be the beneficiary and the Board could implement rules on how many years after matriculation the funds would have to be used. The Board would control any distributions only for a qualified educational expense.

Mr. Deiters said that the third proposal is to allocate \$50,000 this year to assist the GEAR UP Program of HED which is a federally –funded program that provides aid to some of the poorest high schools in the state. Instead of students going to UNM and trying to get the ETB Pathways Scholarship there, those \$50,000 would be allocated to students graduating from GEAR UP schools and ETB with the GEAR UP program could handle those similarly to the way that we used to handle the out-of-state. We would have an in-house application process the students would apply to and they would be vetted through this program and the awards would only be made to the colleges that they attend.

Vice Chairman Desiderio asked Mr. Deiters if the Board had to act on this today and asked if this could wait because it was something that he would like to spend a little more time on.

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Mr. Deiters asked Vice Chairman Desiderio if they could act on the university and college provision so that the financial aid departments would clearly need to have the money early in the summer so that they can make awards for fall.

Vice Chairman Desiderio asked Mr. Deiters if the million dollars that he is proposing was the sum of the two years from Oppenheimer.

Mr. Deiters responded that was correct.

Chairman Garcia called for a second motion to accept the recommendation of the Executive Director to allocate \$750,000 to universities and colleges for the award of Pathways Scholarships with the proposed changes.

A motion was made by Vice Chairman Desiderio and seconded by Mr. Heyman. The motion was passed with unanimous consent.

Chairman Garcia called for a motion to have the Board delay action until the next meeting on the \$200,000 for the Native American College Readiness initiative and the GEAR-UP Program initiative of \$50,000 which will give the Board more time to think about and to have more information for discussion.

A motion was made by Vice Chairman Desiderio and seconded by Mr. Heyman. The motion was passed with unanimous consent.

9) **FY 2015 OPERATING BUDGET** – discussion and possible action – Kevin Deiters, Executive Director

Chairman Garcia called on Mr. Deiters to discuss the proposed FY 2015 Education Trust Board operating budget.

Mr. Deiters provided the Board with a brief overview of his *Education Trust Board Operating Budget for FY 2015 Memorandum of April 23, 2014*. He stated that he is asking Board approval for the budget for this next year to be \$1.8 million which would include a million dollars for the scholarship program. He said if adopted, he will submit a Budget Adjustment Request to the DFA and LFC to establish the budget in the SHARE accounting system and any remaining FY 2014 funds will be transferred to the FY 2015 budget reducing the amount of money transferred from the Board's administrative account.

Chairman Garcia called for a motion to accept the FY 2015 Operating Budget as presented by the Executive Director.

The motion was made by Vice Chairman Desiderio and seconded by Mr. Heyman. The motion was approved by unanimous consent

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10) **ADJOURNMENT**

Chairman Garcia called for a motion to adjourn the meeting. Mr. Serrao moved to adjourn the meeting. Mr. Heyman seconded the motion. The motion was approved by unanimous consent.

Chairman Garcia adjourned the meeting at 4:51 p.m.

*Approved by the Education Trust Board*

*August 20* \_\_\_\_\_, 2014

*Angela M. Gallegos*

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*Angela M. Gallegos, Board Secretary*