

## MEETING AGENDA

**Meeting:** Audit & Risk Committee  
**Date:** October 21, 2020  
**Time:** 8:30 AM  
**Location:** online via webinar and teleconference  
**Teleconference:** (844) 740-1264 / Meeting Number: 133 749 2484 # / Attendee Number: #  
<https://alaskamentalhealthtrust.org/>  
**Trustees:** Anita Halterman (Chair), Verné Boerner, Rhonda Boyles, Chris Cooke, Annette Gwalthney-Jones, Ken McCarty, John Sturgeon

Wednesday, October 21, 2020

Page No.

<b>8:30</b>	<b><u>Call Meeting to Order (Anita Halterman, Chair)</u></b> Roll Call Announcements Approve Agenda Ethics Disclosure Approval of Minutes – July 30, 2020	4
<b>8:35</b>	<b>Annual Audit Presentation / Update</b> <ul style="list-style-type: none"><li>Bikky Shrestha, BDO Anchorage Office</li></ul>	hand-out
<b>9:00</b>	<b>Planning item</b> Outline - Risk Management Plan – Carol Howarth, CFO	7
<b>9:30</b>	<b>Adjourn</b>	

## Future Meeting Dates

### Full Board of Trustee / Program & Planning / Resource Management / Audit & Risk / Finance

(Updated – September 2020)

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- |                                |                             |                        |
|--------------------------------|-----------------------------|------------------------|
| • Audit & Risk Committee       | October 21, 2020            | (Wed)                  |
| • Finance Committee            | October 21, 2020            | (Wed)                  |
| • Resource Mgt Committee       | October 21, 2020            | (Wed)                  |
| • Program & Planning Committee | October 22, 2020            | (Thu)                  |
| • Full Board of Trustee        | November 18-19, 2020        | (Wed, Thu) - Anchorage |
|                                |                             |                        |
| • Audit & Risk Committee       | January 6, <b>2021</b>      | (Wed)                  |
| • Finance Committee            | January 6, <b>2021</b>      | (Wed)                  |
| • Resource Mgt Committee       | January 6, <b>2021</b>      | (Wed)                  |
| • Program & Planning Committee | January 6, <b>2021</b>      | (Wed)                  |
| • Full Board of Trustee        | January 27-28, <b>2021</b>  | (Wed, Thu) – Juneau    |
|                                |                             |                        |
| • Audit & Risk Committee       | April 21, <b>2021</b>       | (Wed)                  |
| • Finance Committee            | April 21, <b>2021</b>       | (Wed)                  |
| • Resource Mgt Committee       | April 21, <b>2021</b>       | (Wed)                  |
| • Program & Planning Committee | April 21, <b>2021</b>       | (Wed)                  |
| • Full Board of Trustee        | May 26, <b>2021</b>         | (Wed) – TBD            |
|                                |                             |                        |
| • Program & Planning Committee | July 27-28, <b>2021</b>     | (Tue, Wed)             |
| • Audit & Risk Committee       | July 29, <b>2021</b>        | (Thu)                  |
| • Resource Mgt Committee       | July 29, <b>2021</b>        | (Thu)                  |
| • Finance Committee            | July 29, <b>2021</b>        | (Thu)                  |
| • Full Board of Trustee        | August 25-26, <b>2021</b>   | (Wed, Thu) – Anchorage |
|                                |                             |                        |
| • Full Board of Trustee        | November 17-18, <b>2021</b> | (Wed, Thu) – Anchorage |

## Future Meeting Dates Statutory Advisory Boards (Updated – September 2020)

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### **Alaska Mental Health Board / Advisory Board on Alcoholism and Drug Abuse**

- Executive Committee – monthly via teleconference (Second Wednesday of the Month)
- October 8-9, 2020 – Board Meeting / Webinar

### **Governor’s Council on Disabilities and Special Education**

- September 29-30, 2020 – Anchorage/ZOOM  
(possible pre/post-meeting for Autism Ad Hoc and/or Workgroup on FASD)
- February 2021 Juneau/ZOOM

### **Alaska Commission on Aging**

- September 22-23, 2020 – Quarterly Meeting / Webinar

**ALASKA MENTAL HEALTH TRUST AUTHORITY**

**AUDIT & RISK COMMITTEE MEETING**

**July 30, 2020**

**9:00 a.m.**

**WebEx Videoconference/Teleconference**

**Originating at:**

**3745 Community Park Loop, Suite 120  
Anchorage, Alaska**

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**Trustees Present:**

Anita Halterman, Chair  
Verne' Boerner  
Rhonda Boyles  
Ken McCarty  
Chris Cooke  
John Sturgeon  
Laraine Derr

**Trust Staff Present:**

Mike Abbott  
Steve Williams  
Carol Howarth  
Miri Smith-Coolidge  
Kelda Barstad  
Luke Lind  
Michael Baldwin  
Carrie Predeger  
Katie Baldwin-Johnson  
Jimael Johnson  
Valette Keller  
Eric Boyer  
Autumn Vea  
Allison Biastock  
Kelda Barstad  
Kat Roch

**Also participating:**

Bikky Shrestha; Beverly Schoonover; Kristin Vandagriff; Roger Branson; Emily Palmer; Sheila Harris; Ed Boyer.

## PROCEEDINGS

### CALL TO ORDER

CHAIR HALTERMAN called the meeting to order and began with a roll call. She stated that all were here and asked for any announcements. There being none, she moved to approval of the agenda.

### APPROVAL OF AGENDA

**MOTION:** A motion to approve the agenda was made by TRUSTEE BOERNER; seconded by TRUSTEE DERR.

*There being no objection, the MOTION was approved.*

CHAIR HALTERMAN asked for any ethics disclosures. There being none, she moved to approval of the minutes.

### APPROVAL OF MINUTES

**MOTION:** A motion to approve the minutes was made by TRUSTEE COOKE; seconded by TRUSTEE DERR.

*There being no objection, the MOTION was approved.*

CHAIR HALTERMAN turned the meeting over to the consultation with Bikky Shrestha.

### CONSULTATION

MS. HOWARTH introduced Mr. Shrestha, who is a CPA and a partner at the Anchorage office of BDO. He is the manager responsible for the external audits and has over 14 years' experience in public accounting, managing the audits of ANCs, tribal organizations, school districts, and the Trust. The Trust has worked with him and his audit lead, Michele Keese, for a number of years.

MR. SHRESTHA began with the Audit Planning Document. He continued that he did not know exactly how the audit will go because it will be done remotely versus in the field. He explained that the professional standards requires communication regarding matters that, in their professional judgement, are significant and relevant to the Trust's responsibility in overseeing the financial reporting process. He stated that this document showed the plan for that process. He continued that the auditors' responsibility is to express an opinion on these financial statements that had been prepared by management. He assists with the preparation of the financial statements, but the information that needs to be gathered for the financial statement comes from management. He moved to the overall audit strategy, which is assessing the risk of material misstatement. He explained that they assess the risk, the areas that have more chances of error, the areas that require significant adjustment that might have to be audited. The concept of materiality is also used where higher balances have a higher chance of being audited. There is also a lot of random sampling process which is usually applied mostly to expenses and revenues. He stated that they first get an understanding of the internal controls over financial reporting, and based on that, any issues are also reported back. He continued that the focus areas are usually determined based on prior audits, based on history, and then they do preliminary analyticals. Then, based on the assessment and past history, the immediate focus area will be investments because they are the biggest item in the financial statement. He added that one of the items that

comes from the State that gets recorded toward the end of the audit is the pension and post-employment benefit liability. They do allocation to all of its component units and then that gets put into the report. On the overall timeline, the majority of the work will be done in September. There is an issue regarding the State not closing the books, and that process is still ongoing. There has been contact with management to figure out a solution. He stated that the financial statements also include the schedule of investments managed by Alaska Permanent Fund Corporation. That is audited by KPMG, and we get that information once they have completed that audit, and that information is put into the financial statements. He moved to the new accounting pronouncements that are coming out that will affect the financial statement in the future.

CHAIR HALTERMAN moved to the planning item for the development of the risk management plan. She recognized Carol Howarth.

### **PLANNING ITEM**

MS. HOWARTH stated that in reviewing the charter of the Audit Risk Committee, two roles were identified. One of them is to ensure systems are in place to conduct forward-looking analysis of organizational risk, and then annually review the organization's risk management plan. There is a need to have a risk management plan that is not yet in place. The components identified in the charter are listed in the table. The needs for any organization vary according to the industry. In overall terms of risk management, we are on the lower risk spectrum and we are lucky to be under the State umbrella. She added that the Risk Management Plan needs to be done and, after a breather, it can start being looked at.

CHAIR HALTERMAN thanked Mr. Shrestha and Ms. Howarth for their presentations. She asked for a motion to adjourn.

**MOTION:** A motion to adjourn the meeting was made by TRUSTEE COOKE; seconded by TRUSTEE STURGEON.

*After the roll call vote, the meeting was unanimously adjourned.*

(Audit & Risk Committee adjourned at 9:20 a.m.)

## MEMO

**To:** Anita Halterman, Audit & Risk Committee Chair  
**Thru:** Mike Abbott, Chief Executive Officer  
**From:** Carol Howarth, Chief Financial Officer  
**Date:** October 21, 2020  
**Re:** Risk Management Plan

At the April 2020 Audit & Risk Committee Meeting it was noted that the Trust is required to have a Risk Management Plan. According to the Audit & Risk Committee Charter, Trustee roles included ensuring systems are in place to conduct a forward-looking analysis of organization risk, and Trustees annually review the organization's risk management plan.

To that end, this memorandum, accompanying charts, and a Powerpoint from a 2018 presentation by Marsh & McLennen to Trustees provide information for consideration.

Best practice risk management now includes three areas.

- Financial risk includes the classic risk management elements—many of which are evaluated with Trust investment and spending policies in mind.
- Non-financial risk includes regulatory outcomes, client / customer disruptions, and reputational risk. Important here is looking at business processes and ensuring the second-line of the organization is engaged in the monitoring and control of risks.
- Strategic risk examines at how external factors can affect Trust operations and fulfilling the Trust's mission.

It is recommended that in forming a risk management plan, Trustees have clarity on “destination goals,” then identify risks that can affect those goals, assess Trust appetite for the risks, seek to minimize risks, and monitor risk management. Risk management may be done by eliminating risk exposure outside the Trustee appetite, reducing the risk profile where warranted, transferring risk through insurance and hedging tools, or retaining the risk.

Considering risk management plan development from a hierarchal perspective, at the highest level the Trust has the “destination goal” of awarding grants that have impact.

The complement to this goal is successful revenue generation through strong investment management that generates acceptable returns.

Other “destinations” critical to successful Trust spending and strong investment returns are Trust governance, a long-term sustainable organization, and an organizational commitment to abide by the laws and regulations applicable to the Trust.

These “destinations” are in turn supported by Trustee and staff excellence and mission-focused operations, which are supported by technology, financial structures, and facilities. And it is management’s role to ensure the successful interplay between these elements.

As an autonomous organization under the umbrella of State of Alaska, the Trust has strong traditional risk structures in place – insurance, IT infrastructure, legal, regulatory, accounting, and workplace rules. Investment controls are sophisticated within DOR and APFC. Internal to the Trust there is the new Asset Management Policy Statement, the Real Estate Management Policy, bylaws and charters that incorporate key risk management elements.

It is proposed by the Chair of this committee and supported by Trust management that a work session be held in the third quarter of FY21. A primary objective would be to identify risks not already covered by risk management policies (or viewed as insufficiently covered) within the risk categories described in the attached charts, and perhaps progress as far as clarifying the risk appetite for specific risks.





# Risk Management Plan

Starting the Discussion

Audit & Risk Committee 10/21/2020

Packet Material



# AUDIT & RISK COMMITTEE CHARTER

## Trustee Roles Include:

- Ensure systems are in place to conduct a forward-looking analysis of organization risk
- Annually review the organization's risk management plan

## RISK MANAGEMENT PLAN

- FINANCE
- HUMAN CAPITAL
- OPERATIONS
- TECHNOLOGY
- REPUTATION
- PHYSICAL
- GOVERNANCE
- MANAGEMENT



# Risk Management Operational Model is the foundation for a Risk Management Plan





# A good, actionable and relevant plan consists of three key processes:

## 1. Risk Identification

Understand & prioritize risks

## 2. Assess Risk Appetite:

Establish an “appetite statement”

## 3. Minimize, Monitor, Control:

Measure performance against risk

### Objectives

- Eliminate risk exposure outside the “appetite statement”
- Reduce risk profile where warranted
- Explicit discussion on strategic opportunities and risk trade-offs



“The healthier the organization today, tomorrow and next quarter, the more resilient the organization”

*-McKinsey & Co. on risk management*



# NEXT STEPS: TRUSTEE WORK SESSION TO IDENTIFY RISKS AND CLARIFY TRUSTEE RISK APPETITE



Financial Risk

Non-Financial  
Risk

Strategic  
Risk

## 1. Risk Identification

Understand &  
prioritize

Clarify  
“destination”

## 2. Assess Risk Appetite

Understand  
“appetite” for  
specific risks

## 3. Minimize, Monitor, Control

Eliminate risk  
exposure outside  
appetite

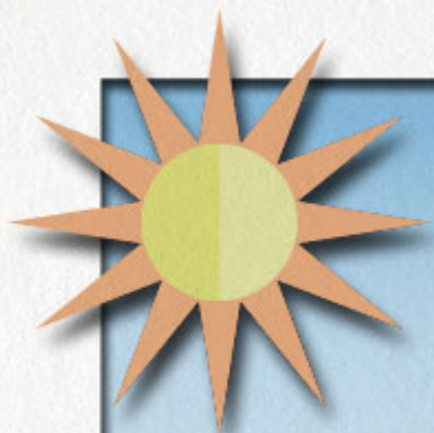
Reduce risk profile

Review strategic  
opportunities v risk  
trade-offs

Measure performance  
against risk







# Discussion



Trust  
Alaska Mental Health  
Trust Authority

April 19, 2018



# Alaska Mental Health Trust Authority

## Tools, Trends & Techniques Insurance & Risk Management

Presented by:  
Sandra Vasquez, SVP  
Marsh & McLennan Agency  
Anchorage, Alaska



# Let's First Touch on Risk...

# What is it?

Risk Management = Managing Threats (Risks)

Managing threats (or Risk Management) is managing uncertainties with negative consequences

There are 4 options to management of these risks:

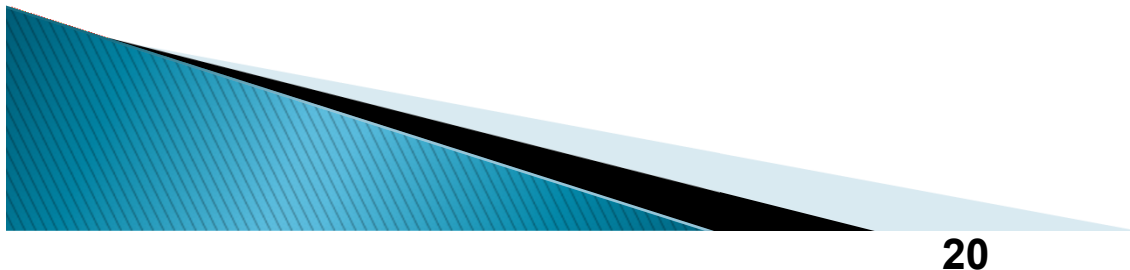
1. Avoidance
2. Reduction
3. Transfer
4. Retain

# Risk Continued

**Corporate Risk Management**— is the coordinated and economical application of resources for minimizing, monitoring, and controlling the financial & operational (including reputational) risk on a company's balance sheet. (ISO 3000)

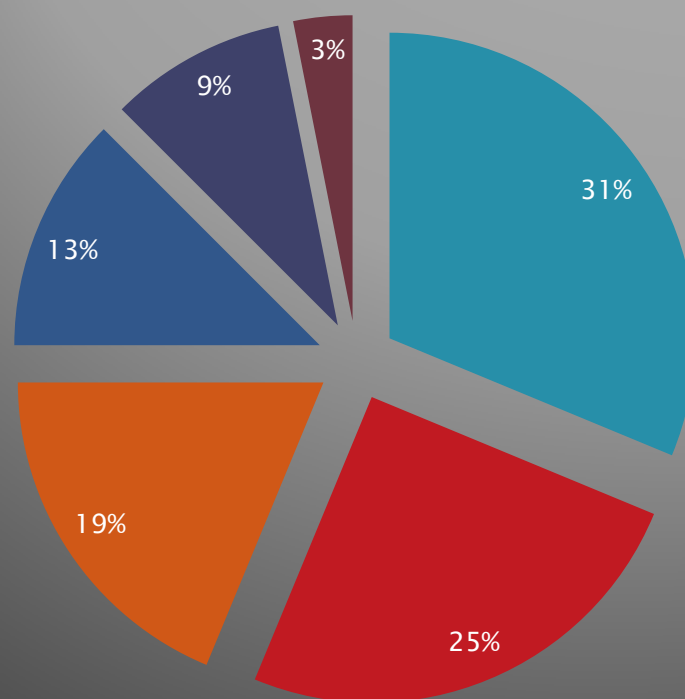
# The Total Cost of Risk

Includes the cost of transferring of risk (Insurance) plus any costs of retained risks (including but not limited to those through an insurance deductible or retention, through a contract or self-insured).



# Total Cost of Risk

- Workers Comp Premium
- Auto Premium
- General Liability Premium
- Property Premium
- Other Insurance Premium
- Loss Pick for Retained Risks



*Example only – not representative  
of any specific exposure base*

# Risk Questions

- ▶ Has a corporate risk practice been established.
- ▶ Have the key components within the total cost of risk been identified & quantified
- ▶ Does the organization have a strategic risk management plan
- ▶ Does everyone in the organization know the risk management goals and their role in achieving and maintaining those goals

# Key Areas of AMHTA Operations:

- ▶ Grants (individual, community & corporate)
  - Insurance requirements of public or corporate grantees?
- ▶ Public Policy
- ▶ Lands (sale & lease)
  - Leases are 4% of this revenue – what kind & how much risk is in this exposure?
- ▶ Minerals
  - Insurance requirements of those performing the work?
- ▶ Forestry
  - Protection of the timber?
- ▶ Real Estate (Development & Acquisition)

# Some Applicable Risk Tools

- ▶ Contract Review (Transfer)
- ▶ Minimum Insurance Requirements (Transfer)
- ▶ Insurance (Transfer)
- ▶ Loss Control (Risk Reduction)



# Insurance – Risk Transfer

(can include some retained risk)

Coverages for consideration:

1. Management Liability
2. Cyber Liability & Network Security
3. Environmental Liability

# Management Liability

## Directors (Trustees) & Officers Liability

D&Os including Trustees are fiduciaries of the corporations they serve....  
As such, they have a duty to avoid conflicts of interest and exercise care and diligence in managing the affairs of the corporation.

D&Os including Trustees may be personally liable if they are disloyal or fail to exercise care which causes a loss to the corporation stockholders or others

Duties of D&Os – “OLD”:

### Obedience

- Compliance with laws

- Acting within the scope of authority

### Loyalty

- No conflicts of interest

### Diligence

- Reasonable person standard of care

- Business Judgment Rule

# Directors (Trustees) & Officers Liability Insurance

The policy protects the *insured persons* and the corporation against financial loss caused by litigation brought against them for an alleged *Wrongful Act*.

The policy will pay judgments, settlements and defense costs, subject to the retention, terms and conditions of the policy.

*Insureds Persons* can include:

- The Organization
- Directors (Trustees)
- Officers
- Employees
- Volunteers

# Management Liability Package Policy

Most Commonly written as a Package Policy including one or more of the following coverages with the D&O coverage:

- Employment Practices Liability
- Fiduciary Liability
- Crime

# Trends – Recent Activity

- **Network Security & Privacy Liability** vs. Management Liability Package Policy
- **Voluntary Parting of Funds or Fraudulent Impersonation** vs. Management Liability Package Policy
- **Employment Practices Liability Insurance**
- **Property Insurance – Natural Disasters of 2017**

# Network Security & Cyber Liability

5 Practical & Action –oriented suggestions to consider:

1. Get Your Arms Around the Cloud
2. Spend Time on Patching
3. Re–think the Human Element
4. Engage with the Government
5. Plan, Plan, Plan

Cyber: The Stakes Have Changed for the C–Suite  
Marsh & McLennan and Fire Eye  
Report| January 2018

# Environmental/ Pollution Liability

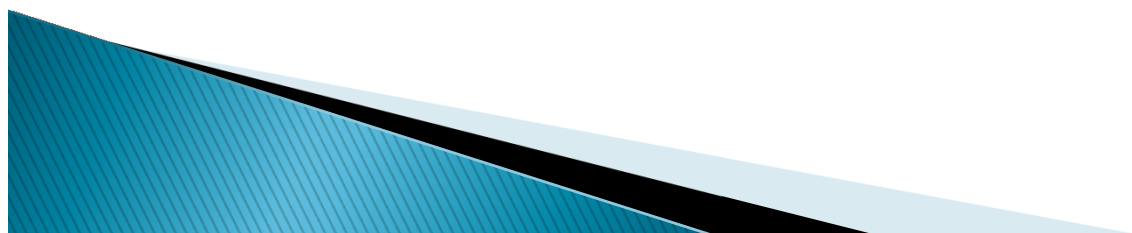
## Risk Considerations:

- ▶ Contractual Requirements
- ▶ Loss Control/ Lands Management
- ▶ Pollution Liability Insurance generally includes coverage for statutory clean-up requirements and bodily injury & property damage for third-party claims. It includes legal expenses resulting from the pollution or the contamination incident(s).

# Applying Loss Control

Loss Control is a risk management technique that seeks to reduce the possibility that a loss will occur and reduce the severity when one does occur.

Loss Control can be applied to all types of exposures.





# Moving Forward

Identify a Brokerage Partner that can assist with:

- ▶ Has an Understanding of Alaska
- ▶ Contractual review
- ▶ Active Claims Management including Advocacy
- ▶ Loss Control
- ▶ Insurance Audits (including Workers Comp)
- ▶ Insurance Program Design
- ▶ Risk Management Program Design
- ▶ Available Access to Expertise & Trainings

# *Thank you*

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