

DRAFT

**AUDIT SUBCOMMITTEE OF THE
NORTH CAROLINA SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES**

**MINUTES OF MEETING
February 25, 2015**

Time and Location: The Audit Subcommittee (the “subcommittee”) of the Supplemental Retirement Board of Trustees (the “board”) met at 3:00 p.m. on Wednesday February 25, 2015, in the HR Conference Room, Albemarle Building, 325 North Salisbury Street, Raleigh, North Carolina.

Members Present: The following members were present: Melinda Baran. The following members participated via teleconference: Walt Gray, Michael Lewis and Gene Hamilton.

Staff and Guests Present: The following staff and guests attended the meeting: from the Department of State Treasurer, Mary Buonfiglio, Rekha Krishnan, Maja Moseley, Joan Fontes, [Fran Lawrence] and Mary Laurie Cece. From CliftonLarsonAllen, Thomas Rey.

AGENDA ITEM – WELCOME AND INTRODUCTIONS

The meeting was called to order by Ms. Buonfiglio at approximately 3:05 p.m. Ms. Buonfiglio welcomed everyone.

AGENDA ITEM – ETHICS AWARENESS & IDENTIFICATION OF CONFLICTS OR POTENTIAL CONFLICTS OF INTEREST

Ms. Buonfiglio asked subcommittee members to review the agenda for the meeting and identify any actual, implied, or potential conflicts of interest. There were no conflicts identified.

401(k)/457(b) PLANS AUDIT

Ms. Buonfiglio stated that the purpose of today’s meeting was to begin the audit process. She explained that as part of the initial audit process, the auditor’s meet with the subcommittee so that the subcommittee members may express any concerns they may have regarding the supplemental plans. She introduced Tom Rey from CliftonLarsonAllen (CLA) and explained CLA would again be the plans’ auditors. She also noted that CLA would be partnering with FOD to work on the audit. Some of the FOD staff members were attending today’s meeting.

Ms. Buonfiglio turned the meeting over to Mr. Rey. Mr. Rey stated that he would have two meetings with the subcommittee. He thinks this is the most important one because from a

planning perspective, he would like to address any concern the subcommittee has. The second meeting is to share results.

Mr. Rey explained that he manages a national team that works exclusively with governmental defined contribution and defined benefit plans. He wanted to take this opportunity to give the subcommittee members a high-level overview of the audit process for the plans. He stated that the audit is done in two phases. First, CLA will do preliminary field work where they focus on controls at the employer level, as well as the service provider level. As part of the controls testing, they focus on contributions into the plans and distributions out of the plans. He noted that CLA focuses on participant-level controls even though these findings are not technically going into the financial statements. But he views this as a critical area of risk for the plans, particularly from a public relations perspective. Therefore, they do this type of testing and would inform the board of any failings. Mr. Rey said that the second level of the process would be to go very deep into the financial reporting piece with FOD.

Mr. Ray stated that CLA tests controls around three areas: contributions, distributions and administrative expense. In addition, they perform a substantive test around the total portfolio's investments. He noted that on the contribution side, CLA does a hefty cross section of large employers and then they do a smaller cross section of small employers. He said that CLA does a good deal of analytics around participant's fees. Ms. Fontes asked if CLA is going to do an onsite visit to Prudential this year. Mr. Rey said yes. Mr. Gray asked if CLA felt they had adequate access to information from both vendors and staff. Mr. Rey said he felt they did. He went on to note that there were lessons learned last year, but overall for a first-year audit, he thought it went as smoothly as it could have. He did note that after last year's audit there was a debrief to see whether there could be improvements. He is looking forward to a more seamless process this year.

Mr. Hamilton asked about the push-back from the predecessor auditor. Mr. Rey stated that he did not get work papers, but he said he was able to get comfortable with beginning balances last year. He stated that in plans like these, it is not that critical to have prior work papers. Mr. Hamilton asked how CLA determines who is a small and who is a large employer. Mr. Rey said this is based on volumes of contributions. He noted that approximately 20 employers make up 60-65% of contributions. He said they randomly pick from the other 950 on a rotating basis. State agencies are viewed as one employer. He added that the state accounts for approximately 40-50% of contributions.

Ms. Buonfiglio asked if there any more questions. Mr. Hamilton asked if the audit team met with staff regularly. Ms. Buonfiglio said that SRP staff feels very comfortable with the audit process and Rekha Krishnan works very closely with CLA and the FOD audit team. She added that

there is a bi-weekly call that will become weekly as the audit process progresses. Ms. Baran asked when the audit would be completed. Ms. Fontes said they will have a final draft by end of June. Ms. Buonfiglio said that at the end of July, the subcommittee will come back together to accept the audit findings and report.

At this time, Ms. Baran made a motion to adjourn. Mr. Gray seconded and the meeting adjourned at 3:40 p.m.

Secretary