

DRAFT

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

MINUTES OF MEETING

March 1, 2016

Time and Location: The Audit Subcommittee (the “Subcommittee”) of the Supplemental Retirement Board of Trustees (the “Board”) met at 9 a.m. on Tuesday, March 1, 2016 in the Dogwood Conference Room, 3200 Atlantic Avenue, Raleigh, North Carolina.

Members Present: The following members were present: Walt Gray and Melinda Baran. The following member participated by phone: Gene Hamilton.

Staff and Guests Present: The following staff and guests attended the meeting. From the Department of State Treasurer: Mary Buonfiglio, Fran Lawrence, Blake Thomas, Rekha Krishnan, Maja Moseley, Joan Fontes, Lisa Page, Nick Byrne. From CliftonLarsonAllen (CLA): Thomas Rey.

AGENDA ITEM – WELCOME AND INTRODUCTIONS

The meeting was called to order by Ms. Buonfiglio at approximately 9:02 a.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.

AGENDA ITEM – 401(k)/457(b) PLANS AUDIT ENTRANCE MEETING

Ms. Buonfiglio recognized Mr. Rey, the CLA engagement partner for defined contribution audits. Mr. Rey noted that the meeting is an excellent opportunity for the Subcommittee members to express any concerns they may have and to have them addressed. The two main phases of the audit will be the field work and internal controls testing of data. Mr. Rey noted that the CLA team possesses a wealth of knowledge in the defined contribution plans area and they are able to bring the best industry standards to the audit of the North Carolina Supplemental Retirement Plans.

Mr. Rey described the first stage of the audit as the planning and strategy phases, and encouraged the Subcommittee members to reach out to the CLA team with questions anytime. The first

phases will be followed by systems evaluation, then testing and analysis and lastly, final reporting. With respect to internal control testing, Mr. Rey added that a CLA IT security specialist may address the potential recordkeeping system risks at the next Subcommittee meeting. CLA team will still perform the Plans specific testing and can also reduce the internal control testing in favor of substantiate testing. Mr. Rey emphasized that all audits are risk based and that the audit team will validate a significant portion of contributions and utilized a tool which analyzes data for all participants as opposed to random sample analysis. This process helps reconcile all distributions, contributions and balances as a whole. Mr. Rey noted that a sample of only a portion of the data tends to overlook any “spiking” trends and this particular tool does not miss those. CLA team will also be reaching out to employers across the state: larger organizations are visited annually while smaller employers are on rotating schedule.

Mr. Rey defined the high risk areas as investments portfolio, contributions, and distributions; significant focus is also on the income and expenses, as well as whole contributions which roll up to financial statements. CLA’s IT auditors work in the defined benefit, as well as the defined contribution areas. They also review SSAE 16 statements. As a result, the auditors are able to share much information regarding potential risks, and this in turn may increase the members’ comfort level from the governance perspective.

Ms. Buonfiglio inquired whether the Subcommittee members need to be made aware of any new GASB requirements or disclosures. Ms. Lawrence replied that GASB Statement No. 72, *Fair Value Measurement and Application*, is the new standard for the fair value of investments. Ms. Lawrence noted that due to the Plans’ unbundling having been completed at the end of the calendar year, no additional tables or disclosures were added however the new standard causes increased work on in the defined benefit area. Mr. Rey confirmed that neither GASB Statement No. 67 nor No. 72 impacted the defined contribution plans.

Mr. Hamilton asked whether the new fiduciary standard rule proposed by the Department of Labor, has any impact on financial statements and Ms. Buonfiglio replied that such impact, if any, is yet to be observed. Mr. Hamilton also inquired about detailed analysis of administrative expenses; Ms. Buonfiglio replied that CEM Benchmarking does the full comparative analysis of administrative expenses for the Plans, and that report is presented to the Board every two years. Ms. Buonfiglio added that the audit process also includes expenses, but the analysis is not to the extent performed in the CEM Benchmarking report. Mr. Rey added that the CLA team will test the fees at the participant level and will then validate the reasonableness of the aggregate fee.

Ms. Baran raised the subject of the upcoming elections for State Treasurer. She asked what efforts staff would take for the new State Treasurer (and new *ex officio* Board member) to fully understand the fiduciary responsibility of the position. Ms. Lawrence noted that the DST Financial Operations Division traditionally prepares a transition memorandum for the new Treasurer. The memorandum describes operating models and service level agreements, reports

the status of ongoing projects, and contains appropriate statutory references. The document is intended as an onboarding tool for the new candidate when he or she takes office, but not before. Mr. Thomas added that Treasurer Cowell had asked all divisions of the Department of State Treasurer to prepare similar transition memoranda. He noted that if candidates reached out to divisions and make public record requests, those are fulfilled. Mr. Thomas emphasized that the Department intends to treat all candidates equally. Mr. Thomas asked that while the Board members are free to express their political opinions as citizens, they should do so as individuals and should not endorse any candidates in their capacity as members of the Board of Trustees. Mr. Gray suggested that a full Board information session to discuss the operational procedures would be a great education opportunity for the candidates. Mr. Gray stated that, as an alternative, a memorandum could be drafted and shared with the candidates. Mr. Hamilton expressed that the Board should not get involved in the election process at this stage.

There were no further comments from the Subcommittee members or the public.

A motion to adjourn was made by Ms. Baran and seconded by Mr. Gray. The motion passed unanimously, and the meeting adjourned at approximately 9:35 a.m.

Secretary