

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

MINUTES OF MEETING

July 26, 2016

Time and Location: The Audit Subcommittee (the "Subcommittee") of the Supplemental Retirement Board of Trustees (the "Board") met at 1 p.m. on Tuesday, July 26, 2016, in the Dogwood Conference Room, 3200 Atlantic Avenue, Raleigh, North Carolina.

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

Staff and Guests Present: The following staff and guests attended the meeting. From the Department of State Treasurer: Mary Buonfiglio, Fran Lawrence, Catherine Jarboe, Reid Chisholm, Maja Moseley, Joan Fontes, Mary Laurie Cece, Lisa Page. From CliftonLarsonAllen (CLA): Thomas Rey.

AGENDA ITEM – WELCOME AND INTRODUCTIONS

The meeting was called to order by Ms. Buonfiglio at approximately 1:02 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) AUDIT PRESENTATION

Ms. Buonfiglio noted that CLA has completed its review of the plans' financial statements and compliance testing for the year end December 31, 2015. She introduced Tom Rey from CLA to go over the audit results. Mr. Rey directed the Subcommittee members' attention to the copy of the financial report, noting the signed management representation letter dated July 26, 2016. Mr. Rey stated that the audit result is a clean, unmodified opinion. He also noted that in accordance with government auditing standards, CLA has also issued a report on internal controls, dated July 26, 2016, and that no deficiencies were found. The report discusses the statement details in the footnotes.

Mr. Rey thanked the Department staff for their assistance in the audit process and emphasized the fact that a clean audit opinion is something the plans can be proud of.

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Mr. Rey provided a brief overview of the financial report content, noting the main highlights of each plan and each condensed statement of changes in fiduciary net positions. He noted that there were no new GASB disclosures or other disclosures added; GASB 72 will have a much bigger impact to the defined benefit plan and will impact the defined contribution plans going forward.

In response to Ms. Buonfiglio's question, Mr. Rey stated that significant testing of the largest employer sites is part of the audit process and as such CLA confirms data analytics, evaluates contributions and generally, the team looks for anything unusual, such as contributions over IRS limits. This year, the records of 25 of the largest employers were audited and nothing material was discovered.

Ms. Baran noted that the footnotes do not speak to information technology risk to the plans. Mr. Hamilton added that risk analysis is an important and current issue and asked when the standards would be implemented. Ms. Fontes replied that GASB 72, the Fair Value Measurement and Application, will impact investments on December 31, 2016, and there will be more disclosure regarding the determination of fair value of the assets. Mr. Rey added that there will be no change to the statement of fiduciary net position but additional disclosures will be incorporated. In response to Ms. Baran's inquiry regarding the information technology audit, Mr. Rey noted that an explicit statement within the financial statements may not be the best solution and suggested that he may speak to his legal team first and draft a side letter instead. Ms. Buonfiglio suggested that this presentation be included in the September Board meeting materials and Mr. Rey agreed, noting that both Prudential and Bank of New York Mellon provide SSAE 16 reports and already conduct penetration testing independently. The focus is on a potential breach of security and making the plan whole. Mr. Rey recommended that the contracts with Prudential and Bank of New York Mellon should be reviewed regarding liability and service level agreements. Mr. Rey also stated that liability apart from the IT systems is probably on employers.

APPROVAL OF FINANCIAL STATEMENTS

Ms. Baran made a motion to approve the plans' 2015 financial statements, and Mr. Hamilton seconded. The motion passed unanimously.

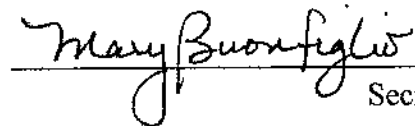
At 1:31 p.m. Ms. Buonfiglio the staff left the room in case the Subcommittee members wanted to discuss anything confidentially with Mr. Rey.

The Subcommittee asked why the NC 403(b) Program was not included in the audit. Ms. Cece replied that the state does not hold the assets of the NC 403(b) Program. The employer is the plan sponsor, and the state is the program administrator.

Staff returned, and Ms. Cece informed staff of the question regarding the NC 403(b) Program.

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

The meeting adjourned by acclamation at 1:35 p.m.


Secretary