

DRAFT

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

**MINUTES OF MEETING
February 17, 2017**

Time and Location: The Audit Subcommittee (the “Subcommittee”) of the Supplemental Retirement Board of Trustees (the “Board”) met at 1:00 p.m. on Friday, February 17, 2017, in the Dogwood Conference Room, 3200 Atlantic Avenue, Raleigh, North Carolina.

Members Present: The following members were present: Melinda Baran. Gene Hamilton and Michael Lewis participated via phone.

Staff and Guests Present: The following staff and guests attended the meeting. From the Department of State Treasurer: Mary Buonfiglio, Steve Toole, Fran Lawrence, Reid Chisholm, Maja Moseley, Patti Hall, Rekha Krishnan, Joan Fontes (via phone). From CliftonLarsonAllen (CLA): Thomas Rey.

AGENDA ITEM – WELCOME AND INTRODUCTIONS

The meeting was called to order by Ms. Buonfiglio at 1:00 p.m. Ms. Buonfiglio welcomed everyone and congratulated Mr. Rey and CliftonLarsonAllen on the winning bid for Supplemental Retirement Plans audit.

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

Ms. Buonfiglio recognized Mr. Rey who noted that the meeting is an excellent opportunity for an open dialogue and to address any concerns the Subcommittee members may have. Mr. Rey noted that the CLA team is dedicated to providing services related to the defined contribution area.

Next, Mr. Rey directed the Subcommittee members’ attention to the report and briefly described its content. He reviewed the audit scope, its methodology, phases, and substantive testing. Ms. Baran asked about the effect of the custodian and unbundling on the audit, and Mr. Rey responded that the risk is that BNY Mellon does not focus its business on defined contribution

plans. Mr. Rey noted that while the Plans' transition reconciliation from bundled to unbundled structure was already completed and no issues were found, CLA will review processes at the custodial bank as additional layer of the audit.

Mr. Rey also reviewed the fiduciary duties of Subcommittee members, as well as their responsibilities. In response to Mr. Hamilton's inquiry, Mr. Rey noted that, in CLA's opinion, the upcoming changes to fiduciary rule will not have a major impact on audit fees and disclosures.

Mr. Rey asked the Subcommittee members to ask questions or voice any concerns not previously addressed. Ms. Baran asked for detailed guidance regarding record retention and Mr. Chisholm described proper retention and disposal of board meeting materials; Ms. Baran also noted a risk level associated with making fiduciary decisions, such as in an Investment Policy Statement redesign. Mr. Rey added that from a fiduciary perspective the idea is to make the best possible decision based on information available. Mr. Toole inquired about industry best practices during transition of large blocks of assets. Mr. Rey responded that he was comfortable with the Plans' approach to fund transfers but would provide best practices in this area as follow-up. Mr. Lewis asked if any trends in issues with plans were observed by CLA in the past two years. Mr. Rey emphasized that CLA does a point-in-time audit and noted a few issues in prior audits, such as lack of employer statements, stable value fund issues, and loan issues.

Ms. Lawrence commented that the Department receives a reconciliation from the record keeper. Mr. Rey noted that this reconciliation is a step above some other plans and is an example of management controls in place at the Department.

Mr. Toole inquired about any work CLA might have done in the public sector regarding obtaining recoveries in class action lawsuits and Mr. Rey responded that the issue would be in the scope of performance audit; he noted he would provide names of companies who focus on performance audits.

Lastly, Mr. Rey asked the Subcommittee members and senior Department staff whether they have any knowledge regarding fraud in the Plans. The members and staff responded in the negative.

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. Hamilton. The motion passed unanimously, and the meeting adjourned at approximately 1:42 p.m.

Secretary