

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

MINUTES OF MEETING

July 27, 2017

Time and Location: The Audit Subcommittee (the “Subcommittee”) of the Supplemental Retirement Board of Trustees (the “Board”) met at 2 p.m. on Thursday, July 27, 2017 in the Treasurer’s Conference Room, 3200 Atlantic Avenue, Raleigh, North Carolina.

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

Staff and Guests Present: The following staff and guests attended the meeting. From the Department of State Treasurer: Mary Buonfiglio, Loren de Mey, Rekha Krishnan, Maja Moseley, Patti Hall, Laura Rowe, Fran Lawrence, and Chris Flynn. From CliftonLarsonAllen (CLA): Tom Rey.

Treasurer Dale R. Folwell, CPA, joined the meeting at approximately 2:40 p.m.

AGENDA ITEM – WELCOME AND INTRODUCTIONS

The meeting was called to order by Ms. Buonfiglio at 2:02 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.

PRESENTATION BY AUDITOR

Ms. Buonfiglio introduced Tom Rey from CLA to review the audit results for the NC 401(k) and NC 457 Plans. Mr. Rey directed the Subcommittee members’ attention to the copy of the financial statements, as well as the copy of representation letter.

Mr. Rey stated that the audit resulted in an unmodified, clean opinion.

Mr. Rey provided a summary overview of the financial statements’ content, noting the highlights of each Plan and statement of changes in fiduciary net positions (an increase in both Plans due to market performance). A brief discussion regarding data presentation in Management’s

Discussion and Analysis (MD&A) followed. Mr. Copley suggested an addition of a summary table to be consistent with the presentation of investment performance data, provided during Board meetings. Ms. Buonfiglio and Mr. Rey noted that this suggestion will be taken into consideration during the next audit cycle. In response to a question posed by Mr. Lewis, Mr. Rey stated that in a full scope audit, the data is verified directly with investment managers and the custodial bank, as well as reconciled with the recordkeeper's data.

Mr. Rey continued on to the financial statements' footnotes, noting the adoption of the Government Accounting Standards Board (GASB) Statement 72, Fair Value Measurement. He provided a detailed explanation of the new required disclosure and commended the staff on meeting the fair value disclosure and having met the standards in accordance with GASB. Ms. Lawrence noted, with respect to the Stable Value Fund, the Plans do not directly own some of the assets and those are not included in the fair value investments footnote.

Mr. Lewis asked for a clarification regarding the custodial credit risk footnote. Mr. Rey stated that this is GASB 40 required risk disclosure and Ms. Lawrence added that the Plans own the assets and do not have custodial credit risk.

In closing, Mr. Rey verified that there have been no difficulties in performing the audit, nor have there been any adjustments to the testing materiality levels set by CLA.

Ms. Buonfiglio provided an update regarding recent, fraudulent member account activity experienced by the Plans' recordkeeper, Prudential. She emphasized that this was **not the result of a breach of the recordkeeper's security system, nor was it a result in a breach in the Department's security system**, and all of the accounts have been made whole. She noted that the process improvements Prudential is currently implementing will be completed in September. All affected participants have been communicated with in numerous ways, via phone call, email, and a letter. Mr. Rey also spoke with Prudential's representative and was satisfied with the information provided. The staff and the recordkeeper continue to monitor this issue on a daily basis and to confirm that the implementation of preventative measures have been successful, and an update will be provided to the Board during the September meeting.

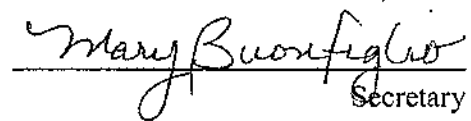
APPROVAL OF FINANCIAL STATEMENTS

Ms. Buonfiglio entertained a motion to approve the Plans' 2016 financial statements. Ms. Baran so moved and Mr. Hamilton seconded. The motion passed unanimously.

Ms. Buonfiglio offered for the staff to leave the room in case the Subcommittee members wanted to discuss anything confidentially with Mr. Rey. The staff left the room for approximately five minutes.

Upon the staff's return, Mr. Rey and Ms. Buonfiglio thanked the staff for their assistance during the audit. Ms. Baran thanked Mr. Rey and CLA, and Treasurer Folwell congratulated the group. There were no further comments from the Subcommittee members or the public.

The meeting adjourned by acclamation at 2:59 p.m.


Secretary