

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

**MINUTES OF MEETING
July 30, 2015**

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 30 2015 at the Longleaf Building 3200 Atlantic Avenue, Raleigh, North Carolina.

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

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, and Mary Laurie Cece. From CliftonLarsonAllen (CLA): Thomas Rey.

AGENDA ITEM – WELCOME AND INTRODUCTIONS

The meeting was called to order by Ms. Buonfiglio at approximately 2:00 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 ended December 31, 2014. She introduced Tom Rey from CLA to go over his findings from the audit.

Mr. Rey stated that CLA has completed its audit and all that remains is this meeting and the Management rep letter; the audit will then be officially complete. He noted that the Subcommittee members received a draft of the financial statements prior to the meeting and that there is nothing different in the signed and dated financials than what was in the draft to the Board. The audit opinion is a clean opinion. He stated that there were no issues with internal controls and that the Financial Operations Division of the Department of State Treasurer compiles the financial statements which is not always the case with other clients of CLA. He added there was nothing in particular to highlight in the footnotes. He said that since no new GASB rules were adopted, the footnotes look the same as the previous year. He said that in the

past there had been two separate financial statements for the NC 401(k) Plan and NC 457 Plan. They are now consolidated into one, but the Management Discussion and Analysis (MD&A) parses out the two plans and provides more specific information. Mr. Rey noted that the management discussion and analysis is not part of the opinion, but is a required section that provides the year's highlights.

Mr. Rey stated that investment earnings were down significantly in 2014 compared to the prior year, but this was due to the financial markets overall. He noted that both plans did have a gain in assets and this was due to getting more participants in the plans. He said it is good to see the additional in-flows. Mr. Gray asked about the low contribution amounts in spite of the increase in participants. Mr. Rey said that when the markets go down, people contribute less and new employees who come in at lower salaries contribute less, as well. Mr. Gray asked if the plan administrators should be worried about this. Ms. Buonfiglio made the point that demographics influence flows in the Plans and in particular the fact that Baby Boomers are retiring has had an impact. She noted that the focus of Prudential and staff going forward will be communicating the benefits to retirees of staying in the plans. Mr. Rey noted that every plan he works on is going through the same issues. He stated that the NC plans are doing the best in the industry for governmental plans. Ms. Fontes added that this year CLA conducted an onsite visit of Prudential. Mr. Rey stated that was a good exercise and there were no major issues to report.

Mr. Rey asked the Board if they had any specific questions or needed any clarification. Ms. Baran said she thought the report was easy to follow; everything seemed to be in order. She asked Mr. Rey if there was anything he saw at Prudential that could be a weakness, such as Information Technology security. Mr. Rey stated that that is really a question for Prudential, but he said that CLA did do some testing of Pru's IT controls. Ms. Buonfiglio added that when the RFP for a new recordkeeper was issued, questions were asked about Prudential's internal IT controls and that Bill Golden, head of DST's IT department, reviewed Prudential's answers. Mr. Rey added that the Board has taken care of its fiduciary responsibility by outsourcing the IT issues to Prudential, but perhaps in the next audit cycle if the Board desired, CLA could bring in one of their IT auditors to perform a specific IT audit of Prudential. The committee agreed to take this under advisement.

At this point, Ms. Buonfiglio offered for staff to leave the room in case the Subcommittee members wanted to discuss anything confidentially with Mr. Rey. The Subcommittee members said that was not necessary. Ms. Buonfiglio asked for approval of the financial statements. Ms. Baran made a motion to approve the financial statements; Mr. Gray seconded the motion and it was unanimously approved. Ms. Buonfiglio thanked everyone for their hard work. Mr. Rey stated that it was a great team to work with. Mr. Gray also thanked the team for all of their hard work.

A motion to adjourn was made by Ms. Baran and seconded by Mr. Gray. The motion passed unanimously, and the meeting adjourned at approximately 2:45 p.m.


Secretary