

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

MINUTES OF MEETING

August 7, 2014

Time and Location: The Audit Subcommittee (the “Subcommittee”) of the Supplemental Retirement Board of Trustees (the “Board”) met at 1 p.m. on Thursday, August 7, 2014 at the Albemarle Building, 325 North Salisbury Street, Raleigh, North Carolina.

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

Staff and Guests Present: The following staff and guests attended the meeting. From the Department of State Treasurer: Mary Buonfiglio, Rekha Krishnan, Joan Fontes, Fran Lawrence, Steve Toole, 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 1:05 p.m. Ms. Buonfiglio welcomed everyone. She noted this was Mr. Orr’s first Audit Subcommittee meeting.

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. She introduced Tom Rey from CLA to go over his findings from the audit. She noted that before a formal recommendation to accept the audit, the staff would leave the room so the auditor and Board would have a chance to discuss anything it needed to without staff present. She turned the presentation over to Mr. Rey.

Mr. Rey said he would go over the financial statements at a high level. He noted that the Board 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, unmodified opinion dated August 7, 2014. He added there was nothing new in the footnotes. He said since no new GASB rules were adopted the footnotes looked the same. The one difference between this document and last year’s is that the financials have been

consolidated into one document, as opposed to two from last year -- one for the NC 401(k) Plan and one for the NC 457 Plan.

Mr. Rey stated that pages 3-8 of the Financial Report is the heart of the story. These pages show rates of return, volumes etc. He 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 asked the Board if they had any specific questions. 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 in the review that was a weakness. He said it would be in writing if there was anything important, and he did not see anything that rose to that level. He added that CLA audits many DC and DB plans, but NC's unique structure made this audit different. He stated that CLA had a learning curve in getting to know the NC plan, but that made the audit interesting and enjoyable. Ms. Baran said she noticed in the notes there was a great deal of detail, and asked if they always include this level of detail. Mr. Rey said these are management's financial statements, and the kudos for the detail should go to management (CLA only opines on the financial statements). Ms. Fontes stated the audit was a collaborative effort. Mr. Rey stated that CLA gave some advice on things to add, but in the end they just reviewed what they were given.

Ms. Fontes noted on the audit side that CLA did a great deal of work with verifying the numbers. Ms. Buonfiglio pointed out the investments were complex, as well. Mr. Rey said his staff thought it was a pleasure to work with the NC staff, who compiled such good financial statements, noting again that it really is the DST staff that created the document. He said that CLA's job is to go behind the scenes validating the numbers and sampling some employers. He added that CLA communicated a few things to the staff, but again there were no big problems. Ms. Baran reiterated the financials were easier to read this year.

Mr. Rey said he wished to discuss a few points: 1. In regard to the NC Stable Value Fund, there is a bit of estimate in valuation, but he said there were no difficulties that needed to be communicated. 2. There were no uncorrected errors and no corrected misstatements in the journal entries. He stated, again, that the Plans had good books and records. Mr. Rey stated that he received the management representation letter. In that letter, management is taking responsibility for the financial statements.

Ms. Lawrence stated this was a transition year with a new auditor, and she thought everything went smoothly. She said the team had a good set of books and records to begin with, making the process smooth. Mr. Rey reiterated that he appreciated this, as well, and while everyone knew there would be a learning curve, he thought that for a first year audit it went as smoothly as it could. He said perhaps next year it would be beneficial to travel to Scranton, Pennsylvania to be

onsite with Prudential. Mr. Gray asked if there was a target date for the report. Ms. Lawrence said the financials are also used for the CAFR, and CLA met all the deadlines.

Ms. Baran asked whether there are any red flags to identify as the Plans start the unbundling project. Ms. Buonfiglio said there is one important issue raised in the unbundling with regard to the audit. Legally, now our custodian doesn't have to share information with the Plans auditor since we don't have a direct contract with them. She noted, as the Plans unbundle, there will be direct contracts with the Custodian. Additionally, in the Request For Proposals, there is explicit mapping where the data comes from so the audit will be easier and the auditors can get the information directly. Mr. Rey said that during the unbundling there may be minor issues to address, but by year two there will be better access to information. He added that in the unbundled scenario there will be a different reconciliation process. Ms. Lawrence pointed out that the financial statements won't look any different, just the process of getting the information will be different. Ms. Fontes pointed out that the 2014 audit will be the same as this year, but perhaps it should be discussed when would be a good date to have any required transition. Mr. Rey says that the end of the year would be easiest.

At this point, DST staff left the room for approximately 7 minutes.

When the staff re-entered, Ms. Buonfiglio asked for approval of the Financial Statements. Ms. Baran made a motion to approve financial statements; Mr. Gray seconded the motion and it was unanimously approved. Ms. Buonfiglio thanked everyone for 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 1:35 p.m.

Secretary