

**SUPPLEMENTAL RETIREMENT INCOME PLAN OF
NORTH CAROLINA AND
NORTH CAROLINA PUBLIC EMPLOYEE DEFERRED
COMPENSATION PLAN
RECONCILIATION OF THE NORTH CAROLINA STABLE VALUE
FUND CUSTODIAN TRANSITION**



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NORTH CAROLINA PUBLIC EMPLOYEE DEFERRED COMPENSATION PLAN**

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INDEPENDENT ACCOUNTANTS' REPORT

Mr. Dale R. Folwell, CPA
State Treasurer
Chair of the Supplemental Retirement Board of Trustees
Supplemental Retirement Income Plan of North Carolina and
North Carolina Public Employee Deferred Compensation Plan
Raleigh, North Carolina

Dear Mr. Folwell:

At your request and direction, we performed certain steps to review the custodial transfer of assets of the North Carolina Stable Value Fund (the Fund), from Wells Fargo Bank, N.A. (Wells Fargo) to The Bank of New York Mellon (the Transition). The procedures performed by us are discussed in the report. Any differences between the procedures set forth in this report and those set forth in the engagement letter reflect modifications that were made at your request or discussed during the course of the engagement. The sufficiency of the procedures is solely your responsibility. Consequently, we make no representation regarding the sufficiency of the procedures described in this report either for the purpose for which this report has been requested or for any other purpose.

Our services consisted of consulting services, and do not constitute an audit, examination, review or compilation of historical financial information conducted in accordance with generally accepted auditing standards or with the other standards established by the American Institute of Certified Public Accountants (AICPA). Accordingly, we are unable to express an opinion or any other form of assurance with respect to any historical financial information.

Our assistance was directed to those activities, operations areas and financial information that you identified as being of concern to you. In performing our services, we conducted inquiries and analysis based on the information made available to us, and we relied on the sufficiency, accuracy, and reliability of information provided by Wells Fargo, the Bank of New York Mellon (BNY Mellon), and Galliard Capital Management (Galliard).

Accordingly, we do not express an opinion or any other form of assurance on the Plans' financial statements, any other financial or non-financial information, management representations, operating controls and internal controls of the Plans.

Our report is intended solely for the information and use of the Plans' management and the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen, LLP

Baltimore, Maryland
July 30, 2021

INTRODUCTION

The purpose of this report is to provide our results regarding the objectives identified in the engagement letter between CliftonLarsonAllen, the Supplemental Retirement Board of Trustees (the Board), and the Department of State Treasurer (the Department) dated April 19, 2021. Those objectives, as summarized below and described in detail in the remainder of the report included an independent and unbiased reconciliation of the transfer of the North Carolina Stable Value Fund's (the Fund) assets pursuant to the transition and a report of any errors and the monetary impact associated with said transition.

The Fund is an investment option in the two deferred compensation plans provided to public employees of the State of North Carolina including the Supplemental Retirement Income Plan of North Carolina (401(k) Plan) and the North Carolina Public Employee Deferred Compensation Plan (457(b) Plan), collectively referred to as the Supplemental Retirement Plans of North Carolina (the Plans). The Plans are governed by the Board and the Department.

The Board and the Retirement Systems Division of the Department have the responsibility for administering the Plans according to the plan documents, North Carolina General Statutes, and the Internal Revenue Code, with the Department of State Treasurer serving as the primary administrator carrying out the provisions of the Plans, as directed by the Board.

The Board, in its role as a fiduciary, has important responsibilities and is subject to standards of conduct because they act on behalf of participants in the Plans. Primary fiduciary responsibilities include acting solely in the interest of plan participants and their beneficiaries with the exclusive purpose of providing benefits to them and carrying out their duties prudently. This report considers the importance of these responsibilities in meeting the objectives described herein.

The Board voted to transition the North Carolina Stable Value Fund's separately managed portfolios supporting the Fund from Wells Fargo to BNY Mellon at the December 3, 2020 meeting due to the sale of Wells Fargo's Institutional Retirement and Trust business. The assets were transferred on April 1, 2021. Galliard remained the overall investment manager of the Fund.

The Fund consists of five insurance contracts with six underlying investment managers, as well as a short-term collective investment trust. The six separately managed accounts transitioned included the Galliard Short Fixed Income Separate Account, the Galliard Intermediate Fixed Income Separate Account, the Jennison Fixed Income Separate Account, the Prudential Fixed Income Separate Account, the Payden & Rygel Fixed Income Separate Account, and the TCW Fixed Income Separate Account. BNY Mellon, Wells Fargo, and the Department created a transition plan for the conversion.

The following section describes our procedures to develop an understanding of the custodian transition for the North Carolina Stable Value Fund and obtain supporting documentation to re-perform the transition of the Fund's assets.

SUMMARY OF OBJECTIVES, PROCEDURES, AND RESULTS

The scope of the reconciliation of the North Carolina Stable Value Fund Custodian Transition review for which we were contracted included two objectives: an independent and unbiased reconciliation of the transfer of the Fund's assets pursuant to the transition and a report of errors, if any, and the monetary impact. The procedures designed to achieve those objectives and the results of those procedures are detailed below.

OBJECTIVE 1: Independent and unbiased reconciliation of the transfer of the Fund's assets

To achieve Objective 1 we:

- a. Developed an understanding of the timeline and transition procedures with each party involved,
- b. Obtained supporting documentation and performed an independent reconciliation of the assets transferred by manager from Wells Fargo to BNY Mellon on April 1, 2021,
- c. Identified all securities and assets that were not transferred on April 1, 2021 and confirmed the subsequent settlement of each,
- d. Reviewed and reconciled subsequent wire transfers from Wells Fargo to BNY Mellon, including the effects, if any, of trailing payments and corporate actions occurring on or after April 1, 2021.

1a. Developed an understanding of the timeline and transition procedures with each party involved

Through inquiries with BNY Mellon, we obtained the following summary of BNY Mellon's conversion process.

The conversion of assets from a custody perspective can be summarized as follows. BNY Mellon as the receiving bank is told by Wells Fargo what assets and cash will be delivered to them. BNY Mellon will make an initial entry for transactions in the various locations (countries and depositories) to accept these securities and cash. If the trade does not settle, BNY Mellon will question the prior custodian to determine the issue and potentially amend the trades. In some cases, trades are pending at the prior custodian. Shares may not be transitioned to settle pending sales or shares may be delivered in later for pending buys. Cash may also be left behind or netted with cash activity to settle pending buys and may be wired after the transition date for pending sales that settle. Any cash that is received at the prior custodian for dividends or interest is also wired to BNY Mellon when received. In some instances, there are corporate actions that are pending on securities. These securities cannot be delivered to BNY Mellon until the action is settled. In many cases, the security eventually delivered or the shares being delivered may be different. Ultimately, the receiving custodian is told what is being delivered and when.

Through inquiries with BNY Mellon, Wells Fargo, and Galliard we obtained the following summary of the transition process.

- BNY Mellon, Wells Fargo and Galliard performed necessary operational setup by exchanging account and holdings information prior to the asset transfer and the investment managers were provided new account welcome packages.
- BNY Mellon received a holdings list with the valuation date March 31, 2021 from Wells Fargo.
- The assets were transferred on April 1, 2021 and BNY Mellon reconciled the assets received to the holdings list. BNY Mellon sent confirmation and assets received/not received details to the investment managers for review.
- April 1 through May 19, 2021 Wells Fargo remitted residual cash to BNY Mellon for outstanding items and interest received.

1b. Obtained supporting documentation and performed an independent reconciliation of the assets transferred by manager from Wells Fargo to BNY Mellon on April 1, 2021

We obtained from Wells Fargo the investment holdings detail by individual security as of March 31, 2021 for all securities held in custody by Wells Fargo. We separated the listing by manager and imported into our data analysis software. We then obtained from BNY Mellon a listing of assets received on April 1, 2021 per manager. Using a join function, we matched the security ID's on each file. For those securities that matched, we compared the shares and settled current face amounts and noted no differences.

To validate the accuracy and completeness of the assets received listings from BNY Mellon (which were provided to CliftonLarsonAllen in an Excel format), we also independently ran an Accounting Transactions report from the BNY Mellon Nexen site and performed the same match function and noted no differences.

We also confirmed all cash movements wired on April 1, 2021 for the short-term investment fund from Wells Fargo were delivered to BNY Mellon. We noted there was a holdback of cash for buys pending April 1, 2021 and later for four managers, including Prudential, Galliard Intermediate, Jennison, and TCW. This will be discussed more in section 1c below. All assets were received on April 1, 2021 for the Payden & Rygel and Galliard Short separately managed accounts.

1c. Identified all securities and assets that were not transferred on April 1, 2021 and confirmed the subsequent settlement

We obtained from Wells Fargo the holdings list for all securities held in custody of the Fund as of March 31, 2021. We separated the listing by manager and imported into our data analysis software. We also obtained the Assets Received on April 1 listing from BNY Mellon. Using a join function, we performed a query that identified all securities on the Wells Fargo holdings list that were not on the Assets Received listing from BNY Mellon. The following summarizes those results.

Prudential Fixed Income Separate Account

We noted eight securities were not received on April 1, 2021 for Prudential. Five of the eight securities settled on April 6, 2021. The remaining three securities settled on April 13, 2021. During this review process, we noted one of the securities had a revised share amount and reviewed confirmation of this sale from the manager in the documentation provided by BNY Mellon.

The short-term investment fund (Wells Fargo/BlackRock Short-Term Investment Fund S) holdings with Prudential had a value of \$4,925,473.78 on March 31, 2021. We noted the full \$4,925,473.78 was held back for pending buys expected to settle on April 14, 2021. We noted these trades were cancelled and later rebooked at BNY Mellon. We verified the remaining balance was wired by Wells Fargo and received by BNY Mellon on April 15, 2021.

Galliard Intermediate Fixed Income Separate Account

We noted all securities were received on April 1, 2021 for Galliard Intermediate.

The short-term investment fund (Wells Fargo/BlackRock Short-Term Investment Fund S) holdings with Galliard Intermediate had a value of \$26,086,711.37 on March 31, 2021. We noted \$17,955,536.48 was wired on April 1, 2021 and \$8,131,174.89 was held back for pending buys on April 1, 2021 or later. We noted these trades were cancelled and later rebooked at BNY Mellon. We verified the remaining balance was wired by Wells Fargo and received by BNY Mellon on April 5, 2021.

Jennison Fixed Income Separate Account

We noted six securities were not received on April 1, 2021 for Jennison. Three of the six securities settled on April 6, 2021. During this review process, we noted two of the securities had a revised share amount and reviewed confirmation of this buy/sale from the manager in the documentation provided by BNY Mellon. One security had a corporate action where the exchange had not yet settled. The settlement into the new CUSIP occurred on April 6, 2021. The remaining three securities had pending sales (all shares sold) that settled on April 14, 2021. Cash was received in lieu of shares for these three securities in the April 21, 2021 wire from Wells Fargo.

The short-term investment fund (Wells Fargo/BlackRock Short-Term Investment Fund S) holdings with Jennison had a value of \$10,974,599.85 on March 31, 2021. We noted \$7,936,634.06 was wired on April 1, 2021. We verified the remaining \$3,037,965.79 was held back for a buy that settled on April 1, 2021.

TCW Fixed Income Separate Account

We noted seven securities were not received on April 1, 2021 for TCW. One of the six securities settled on April 2, 2021. Five of the remaining securities settled on April 6, 2021. During this review process, we noted three of the securities had a revised share amount and reviewed confirmation of this buy/sale from the manager in the documentation provided by BNY Mellon. The remaining security had a pending sale (all shares sold) that settled on April 5, 2021. Cash was received in lieu of shares for this security in the April 5, 2021 wire from Wells Fargo.

The short-term investment fund (Wells Fargo/BlackRock Short-Term Investment Fund S) holdings with TCW had a value of \$29,955,892.34 on March 31, 2021. We noted \$28,084,483.85 was wired on April 1, 2021. We verified the remaining \$1,871,408.49 was held back for buys that settled on April 1 and April 5, 2021.

1d. Reviewed and reconciled subsequent wire transfers from Wells Fargo to BNY Mellon, including the effects, if any, of trailing payments and corporate actions occurring on or after April 1, 2021

First, we obtained from Galliard the spreadsheets for each manager showing the breakdown of the principal and interest and income postings for all the accounts.

Second, we traced each residual cash amount to the wire details from Wells Fargo on April 5, April 6, April 9, April 15, April 21, April 28, May 7, and May 19, 2021 and noted no differences.

Finally, we also independently ran an Accounting Transactions report from the BNY Mellon Nexen site and traced all residual cash amounts. No differences were noted. Wells Fargo confirmed all accounts are showing no cash and no securities.

OBJECTIVE 2: Report errors, if any, and their monetary impact

We identified no errors during our procedures described in Objective 1, including our review and re-performance of various BNY Mellon conversion reconciliations, Wells Fargo's wire sheets, Galliard's residual cash spreadsheets, and our independent reconciliations of all the Fund's managed accounts.