



North Carolina
Total Retirement Plans
401k | 457 | 403b



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STATE TREASURER OF NORTH CAROLINA
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DRAFT MINUTES

AUDIT SUBCOMMITTEE OF THE NORTH CAROLINA SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES

The meeting of the Audit Subcommittee was called to order at 11:00 a.m., July 26, 2019, by the Chair, State Treasurer Dale R. Folwell, CPA. The meeting was held in the Dogwood Conference Room of the Longleaf Building at 3200 Atlantic Avenue, Raleigh, NC 27604. The Chair indicated there would be a public comment period for organizations and individuals to address the Subcommittee later in the agenda.

Members Present

The subcommittee members attended via phone: Treasurer Dale R. Folwell, CPA; Melinda Baran; Michael Lewis.

Members Absent

No subcommittee members were absent.

Guests Present

The guests attending were: Thomas R. Rey, Jr., from CliftonLarsonAllen.

Department of State Treasurer Staff Present

The staff members present were: Mary Buonfiglio, Reid Chisholm, Joan Fontes, Patti Hall, Debra Haynes, Rekha Krishnan, Loren de Mey, April Morris, Maja Moseley.

Ethics Awareness and Identification of Conflicts or Potential Conflicts of Interest

The Chair asked, pursuant to the ethics rules, about conflicts of interest of subcommittee members. No conflicts of interest were identified by the subcommittee members.

Auditor's Report and Approval of 2018 Financial Statements for the NC 401(k) and NC 457 Plans

The Chair recognized Mr. Rey who presented the results of the 2018 audit of both plans and stated that a clean audit opinion was issued. Additionally, no material weaknesses or significant deficiencies were found by the auditor. Mr. Rey summarized several relevant sections of the report, including: consideration of internal controls, compliance testing, statements of fiduciary net position, and the statements of changes in fiduciary net position. He noted that a decrease in the fiduciary net position was recorded for the year, but that the balance sheet continues to look healthy. Mr. Rey also mentioned that there was nothing to highlight in the notes to the financial statements.

A robust discussion followed the presentation. Ms. Baran asked for clarification of the statement in the notes regarding the lack of a formal policy to limit credit risk. Mr. Rey replied that all risk is disclosed as a GASB requirement and the Board may consider working with the investment consultant to adopt a formal policy. He added that the lack of such policy is not a negative attribute and is only noted to achieve full transparency. Ms. Buonfiglio further noted that the

investment restrictions were moved from the plans' Investment Policy Statement to the investment managers' respective guidelines and credit risk is being monitored as applicable in each portfolio. Ms. Fontes confirmed that due to the very prescriptive nature of the financial statements' notes, specific comments regarding the investment guidelines, as well as the custodial credit risk, have been included in their respective paragraphs. Mr. Rey offered to work with staff to expand the prescriptive GASB language wherever possible in order to add more clarity for the report reader.

Mr. Baran also asked about the statement in the notes regarding the lack of a formal policy to limit custodial credit risk. Ms. Fontes responded that unbundling mitigated this risk because assets are held in "our" name (i.e., in the name of the group trust).

Mr. Lewis inquired whether all information requested by the auditors was provided by the audited parties and Mr. Rey confirmed that it was and that the process was seamless and the auditors encountered no difficulties in the performing of the audit. Lastly, Mr. Rey confirmed that all communication required under the audit standards has been fulfilled.

Mr. Rey also noted that there were no corrected or uncorrected material misstatements and that there were no disagreements with management.

The Chair entertained a motion to approve the audited 2018 financial statements for the NC 401(k) and NC 457 Plans. Ms. Baran made a motion to approve and Mr. Lewis seconded. The motion passed unanimously.

Audit Subcommittee Comments

The Chair noted that the Subcommittee members who wish to speak with the auditor confidentially and without the staff present will be given an alternate phone number to dial in after the adjournment. The Subcommittee members had no confidential questions for the auditor and thanked Mr. Rey and the CLA team for their work.

Public Comments

No comments were offered.

Adjournment

There being no further business before the subcommittee, Ms. Baran moved to adjourn, which was seconded by Mr. Lewis, and the meeting was unanimously adjourned at 11:24 a.m.

Chair

Secretary