



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



*Dale R. Folwell, CPA*  
STATE TREASURER OF NORTH CAROLINA  
DALE R. FOLWELL, CPA

## **MINUTES**

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

The meeting of the Audit Subcommittee was called to order at 2:00 p.m., July 15, 2020, by the Acting Chair, Chief of Staff Chris Farr, on behalf of State Treasurer Dale R. Folwell, CPA. The meeting was held with everyone attending via teleconference. The Acting Chair indicated there would be a public comment period for organizations and individuals to address the Subcommittee later in the agenda.

#### **Members Present**

The Audit Subcommittee members attended via telephone: Acting Chair Chief of Staff Chris Farr, Melinda Baran, Steve Beam, and Michael Lewis.

#### **Members Absent**

No subcommittee members were absent.

#### **Guests Present**

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

#### **Department of State Treasurer Staff Present**

The staff members present were: Mary Buonfiglio, Tom Causey, Reid Chisholm, Joan Fontes, Patti Hall, Alan Jaquith, Rekha Krishnan, Fran Lawrence, Loren de Mey, April Morris, and Paul Palermo.

The Acting Chair called the meeting to order and reminded members of several items based on a recently enacted state law regarding remote meetings, including roll call votes and members' announcements of their names when they depart, when they return, and when they speak.

#### **Ethics Awareness and Identification of Conflicts or Potential Conflicts of Interest**

The Acting 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 2019 Financial Statements for the NC 401(k) and NC 457 Plans**

The Acting Chair recognized Mr. Rey who presented the results of the 2019 audit of both plans and stated that a clean audit opinion was issued. He explained that the letter states that this is an "unmodified opinion" (i.e., "clean" opinion) regarding the financial statements of the NC 401(k) Plan and NC 457 Plan as prepared by the Department of the State Treasurer. He emphasized that this is an audit of the financial statements and not of operational or internal controls. Additionally, the auditors found no material weaknesses or significant deficiencies.

Mr. Rey summarized the major sections of the report, including: management discussion and analysis, statements of fiduciary net position, statements of changes in fiduciary net position,

and notes to the financial statements. He noted that 2019 was a healthy year and that an increase in net assets and participants was recorded for the year. He also reminded everyone that the report is a snapshot as of December 31, 2019, before the current coronavirus pandemic struck.

Mr. Rey also mentioned that there was nothing to highlight in the notes to the financial statements. Mr. Rey explained that the final three pages of the PDF are referred to as the "SAS 114" letter, a required communication from the auditor to those in charge of governance. He said that they had no difficulties performing the audit, there were no material adjustments to report, there were no passed journal entries, no disagreements with management, and no issues during the audit.

Mr. Rey then responded to the questions submitted by Mr. Beam prior to the meeting.

First, Mr. Rey stated that problems encountered by CliftonLarsonAllen during employer testing were discussed immediately with Prudential and the department. CliftonLarsonAllen did not discover any problems during employer testing that would have a material impact on the financial statements.

Second, Mr. Beam asked if there are any best practices that the plans are not doing. Mr. Rey responded that in regards to financial reporting and internal controls, North Carolina uses industry best practices. For example, the plans' unbundled structure and separate accounts provide an extra layer of controls. Only a small percentage of plans have North Carolina's level of controls. Many plans do not have internal staff to prepare financial statements.

Third, Mr. Beam asked if there were any nonmaterial issues discovered by CliftonLarsonAllen. Mr. Rey stated there were minor reporting problems discovered during employer testing.

Fourth Mr. Beam asked whether Prudential's error last year related to some participants' loans should have been considered material. Mr. Rey responded that the error was not material and that CliftonLarsonAllen reviewed it last year following disclosure by staff.

Finally, Mr. Beam, asked whether the plans should have a policy on custodial credit risk. Mr. Rey stated that a policy was not mandatory but that the board and staff could consider adding it to the investment policy statement, perhaps as a best practice. Mr. Beam follow up on this item in the meeting, and Ms. Buonfiglio referred him to the investment compliance memorandum that was presented to the board at its September 2019 meeting. The memorandum included a section on custodial credit risk in response to a question from the Audit Subcommittee in 2019. Staff determined that the plans custodial credit risk was low.

The Acting Chair noted that any Subcommittee members who wish to speak with the auditor confidentially and without the staff present would be given that opportunity. The Subcommittee members had no confidential questions for the auditor.

The Acting Chair entertained a motion to approve the audited 2019 financial statements for the NC 401(k) and NC 457 Plans. Ms. Baran made a motion to approve and Mr. Beam seconded. The motion passed unanimously.

The Acting Chair thanked Mr. Rey and the CliftonLarsonAllen team for their work.

**Public Comments**

No comments were offered.

Ms. Buonfiglio thanked CliftonLarsonAllen for its work, especially given the current challenging environment related to COVID-19 and the remote employer testing. Ms. Fontes concurred.

**Audit Subcommittee Comments**

Ms. Baran asked whether the board should make changes to investments or the investment policy at the August meeting due to the coronavirus-related impacts since March. Ms. Baran expressed concern in particular about the insurance providers in the Stable Value Fund and asked whether the insurance provider's audits should be checked. Ms. de Mey stated that Callan is scheduled to provide the annual review of the Stable Value Fund at the August board meeting.

Mr. Beam and Mr. Lewis thanked CliftonLarsonAllen and departmental staff.

The Acting Chair thanked everyone for participating and announced the next quarterly SRP Board of Trustees meeting will be held Thursday, August 27, 2020, at 9:00 a.m.

**Adjournment**

There being no further business before the subcommittee, Ms. Baran moved to adjourn, which was seconded by Mr. Beam, and the meeting was unanimously adjourned at 2:50 p.m.

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Chair

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Secretary