



Draft MINUTES

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

The meeting of the Audit Subcommittee was called to order at approximately 10:30 a.m. on February 28, 2025, by the Chair, State Treasurer Brad Briner. The meeting was held in a hybrid format, with people attending virtually or in person, 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

Audit Subcommittee members attending in person: Treasurer Brad Briner.

Audit Subcommittee members attending virtually: Steve Beam, Bob Shea, and Robert Hillman.

Members Absent

None

Guests Present

Guests attending in person: Thomas R. Rey, Jr. from UHY.

Guests attending virtually: None.

Department of State Treasurer Staff Present

Staff members attending in person: Shanta Bowley, Kris Byrd, Reid Chisholm, Patti Hall, Jeff Hancock, Kristin Merrick, Chris Morris, Eric Naisbitt, Paul Palermo and Kevin SigRist.

Staff members attending virtually: Derek Gee, Christy Farrelly and Sam Watts.

The Chair called the meeting to order and reminded members that since this meeting is being held in a hybrid format, members must announce their names when they arrive, when they depart, and when speaking. In addition, he explained that making a motion will be assumed to be a vote for the proposal, unless there is an objection, and all votes will be taken by roll call. He stated that today's meeting is being recorded as part of the Department of State Treasurer's (DST) initiative to increase government transparency.

Ethics Awareness and Identification of Conflicts or Potential Conflicts of Interest

The Chair asked, pursuant to the ethics rules, about Subcommittee members' potential, or actual or the appearance of a conflict of interest. No conflicts of interest were identified by the Subcommittee members.

Initial Presentation for the 2024 Audit of the NC 401(k) and NC 457 Plans

The Chair recognized Mr. Thomas Rey, Partner, UHY, to discuss the scope of the upcoming annual audit of the NC 401(k) and NC 457 Plans (included in the Board's materials). The financial

audit of the NC Supplemental Retirement Plans (SRP) includes using a sample of employers to test employers' payroll processes for timeliness, accuracy, and compliance with IRS guidelines.

Mr. Rey indicated there are four phases in the audit methodology. The first two phases of the audit are to get an in-depth understanding of key processes for effectiveness around contributions, distributions and participants' data and to review BNY's and Empower's SOC 1 reports. The next two phases focus on the financial statements regarding investments (Empower, BNY, and investment managers), contributions, distributions and administrative expenses.

The sample used for employer testing consists of the 10 largest employers and 15 employers who are randomly selected.

Mr. Hancock added that, unlike SRP, not all plan sponsors choose to do employer testing.

Mr. Rey indicated the focus of the investment audit is on valuation testing, analytical procedures over investment and interest income, and investment expenses. The focus on contributions is a reconciliation of the contribution details to the trial balance. The focus on distributions is a reconciliation of the distributions to the trial balance and for the administrative expenses, the focus is on the analytical procedures.

Treasurer Briner asked which assets are not in custody at BNY.

Mr. Rey said the stable value fund with Galliard is not in custody with BNY.

Mr. Rey added that part of the risk assessment includes interviews with staff and a sub-committee board member regarding their views on fraud in the plans. Mr. Hancock asked whether the fraud assessment is regarding the financials and Empower's records regarding fraudulent calls. Mr. Rey said that the fraud assessment includes material fraud regarding the financial statements and any other reported fraud from Empower.

Mr. Beam asked about the management override of controls and revenue recognition, and the non-custodial part of the stable value fund.

Mr. Rey said management override of controls and revenue recognition is an automatic significant risk in every financial statement audit. He said that UHY validates 100% of the contributions with Empower and revenue recognition refers to the timing of the posting of the contributions. The audit also includes a focus on investments that are not in custody at BNY. This includes the stable value funds with Galliard to ensure the contract is fully supported.

Mr. Shea asked about the changes to the engagement letter regarding revenue recognition and internal controls.

Mr. Rey said it is now a requirement for revenue recognition and internal controls to be included in the engagement letter that is sent to the employers.

Treasurer Briner asked how UHY can raise the standard of the audit in a cost-effective manner. Mr. Rey said that cyber assessments could be done; however, Empower has controls in place for cybersecurity.

Public Comments

No comments were offered.

Audit Subcommittee Comments

The Chair thanked everyone for participating.

Adjournment

There was no further business before the Audit Subcommittee. Mr. Beam moved to adjourn the meeting and Mr. Shea seconded. The motion passed by a unanimous roll call vote of 4-0. The meeting was adjourned at 10:50 a.m.

Chair

Secretary