



# North Carolina

Total Retirement Plans  
**401k | 457**



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## The North Carolina Supplemental Retirement Plans Audit Sub-Committee Presentation by Thomas Rey, CPA, Partner

# Agenda

- Industry Knowledge
- Audit Scope
- Audit Segmentation
- Audit Methodology
- Trustee Roles & Responsibilities
- Discussion of risks
- Questions



# Deep Industry Knowledge

- CLA's Governmental Retirement Plan Team currently provides audit and consulting services to more than 20 state and local governmental defined contribution plans across the country. In addition, the key personnel assigned to this engagement focus almost exclusively on governmental benefit plans. The knowledge gained from specializing in this unique niche enables our professionals to provide extraordinary service to our governmental DC clients coupled with methodologies which enhance efficiencies and quality.

# Scope of Engagement

- **Perform an Audit of the North Carolina Supplemental Retirement Plans' (401K & 457) Financial Statements for 2018 Under U.S. Generally Accepted Auditing Standards and U.S. Generally Accepted Government Auditing Standards**

The primary objective of our audit is to express an opinion on the fair presentation of the financial statements.

We plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected.

- **Serve as a Resource throughout the Year**

# CLA Audit Methodology



# Audit Methodology – Internal Control

- Obtain an in-depth understanding of all key processes of the entity through discussions with management and review of the its service providers:
  - Prudential's SOC 1 Report(s) under SSAE 18 (Plan Administrator)
  - BNY Mellon's SOC 1 Report(s) under SSAE 18 (Group Trust's Custodian)
  - Wells Fargo's SOC 1 Report under SSAE 18 (Stable Value – Galliard's Custodian)
- Based on our understanding obtained we will develop a risk based audit approach to effectively reduce audit risk to an acceptably low level
- Perform tests of design of key processes identified
- Perform tests of effectiveness over contributions, distributions, and participant data
- Perform employer audits
  - Accurate remittance of contributions to Prudential
  - Timely remittance of contributions to Prudential
  - Remitted contributions did not exceed IRS limitations
  - Participant data reported to Prudential completely and accurately

# Audit Methodology – Substantive Testing

- Investments
  - Confirmations with Prudential, BNY and investment managers
  - Valuation testing
  - Analytical procedures over investment and interest income
  - Analytical procedures over investment expenses
- Contributions
  - Confirm contributions with a sample of employers
  - Analytical procedures over contributions
  - Reconciliation of contribution detail to trial balance
- Distributions
  - Analytical procedures over distributions
  - Reconciliation of distribution detail to trial balance
- Administrative Expenses
  - Analytical procedures over administrative expenses

# Trustee Fiduciary Duties

- **Duty of Loyalty** – The obligation to act for the exclusive benefit of the plan participants and beneficiaries
- **Duty of Care** – The responsibility to administer the plan efficiently and properly
- **Duty of Prudence** – The obligation to act prudently in exercising power or discretion over the interests that are subject to the fiduciary relationship.



# Accountability & Transparency

- The presence of an *effective* audit committee encourages staff to increase the level of care in preparing financial statements
- The presence of an audit committee can result in staff being more attentive to how money was spent by reviewing pension system spending patterns
- The audit committee can put more focus on risk management and internal controls
- Provides another “set of eyes” ensuring reports are understandable, moving the reports from “jargon” to information
- Enhances credibility (financial statements, internal audit, CFO and finance departments)
- Ensures things get done

# Fiduciary Responsibility

- Assess annual audit implications and approve action plans to strengthen performance
- Establish and monitor a system to ensure that the organization is in compliance with all relevant financial laws and regulations
- Approve non-routine contractual obligations as defined by approved board expenditure authorization policies
- Establish adequate risk management mechanisms

# Discussion of Risks

- **The Sub-Committee's views about the risks of fraud**
- **Does the Sub-Committee have knowledge of any fraud or suspected fraud affecting the entities**
- **Does the Sub-Committee have an active role in oversight of the entities' assessment of the risks of fraud and the programs and controls established to mitigate those risks**
- **Other risks**

# Questions





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