



North Carolina
Total Retirement Plans
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STATE TREASURER OF NORTH CAROLINA
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DRAFT MINUTES
SUPPLEMENTAL RETIREMENT BOARD OF TRUSTEES
AUDIT SUBCOMMITTEE

The initial meeting of the Supplemental Retirement Board of Trustees' Audit Subcommittee was called to order at approximately 11:02 a.m. on March 23, 2020, by the Acting Chair, Chris Farr, Chief of Staff, Department of State Treasurer. The meeting was via teleconference.

Members Present

The following subcommittee members were present: Chris Farr (as delegee of Treasurer Dale R. Folwell, CPA), Melinda Baran, Steve Beam, and Michael Lewis.

Members Absent

None

Guests Present

Thomas Rey from CliftonLarsonAllen attended the meeting.

Department of State Treasurer Staff Present

The following staff members were present: Mary Buonfiglio, Thomas Causey, Reid Chisholm, Alexandria Ferguson, Rekha Krishnan, Fran Lawrence, Loren de Mey, Patti Hall, April Morris, and Joan Fontes.

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 the subcommittee members. No conflicts of interest were identified by the subcommittee members.

2019 Audit Entrance Presentation

The Acting Chair recognized Thomas Rey of CliftonLarsonAllen (CLA). Mr. Rey noted that not many defined contribution plans have subcommittees or even boards that are active regarding financial statements. He then led the subcommittee members through CLA's presentation, which was included in the meeting materials, and told subcommittee members that they would have the opportunity to provide feedback.

Mr. Rey stated that his team at CLA spends approximately 95% of its time working on defined benefit and defined contribution plans.

Mr. Rey then reviewed the scope of the engagement. The financial statements and footnotes are owned by the department, and the opinion is owned by CLA. The audit is a financial audit with a reasonable assurance standard and not an internal control or performance audit.

Next, Mr. Rey discussed the methodology of the audit, including employer testing, review of Prudential's SOC 1 report, and substantive testing.

Mr. Lewis inquired whether there are other topics to consider when conducting an audit. Mr. Rey replied that understanding service providers' cybersecurity protocols, such as multifactor authentication, is important. Mr. Rey indicated that his firm's IT group reviews information provided by the third-party administrator at a high level to ensure adequate controls in this regard.

Mr. Rey followed by drawing the subcommittee's attention to slides 8-10 in the presentation, which are reminders of members' duties and value in the audit process.

Mr. Rey then offered members the opportunity to discuss any fraud concerns and stated that CLA also may contact individual members of the subcommittee. He told the subcommittee that CLA is independent and works for the subcommittee. He also told the members that they can contact CLA apart from the meeting as well.

Mr. Beam asked if there is anything in the audit process to identify weaknesses or conflicts of vendors, for example, regarding the effect coronavirus environment on Prudential. Mr. Rey responded that the identification of conflict and market risks are not part of the audit process but probably would be identified by departmental staff. However, he told the subcommittee that the audit process includes a review of Prudential's SOC 1 report and that CLA plans to visit Prudential.

Ms. Buonfiglio commented that in the current coronavirus-affected environment, Prudential and The Bank of New York Mellon are holding weekly calls, and departmental staff is attending the meetings. In addition, staff has not heard of any weaknesses or problems at vendors, Ms. de Mey has spoken with investment managers, and staff would act on any problems that arose.

Ms. Baran asked if there were any reporting delays experienced with vendors. Ms. Buonfiglio responded in the negative, noting the benefits of automation.

Mr. Rey concluded by stating that CLA will not be onsite with employers but can obtain employers' information remotely, except for information from the department.

Subcommittee Members' Comments

No additional comments were offered by the members of the subcommittee.

Public Comments

No comments were offered.

Adjournment

There being no further business before the subcommittee, Mr. Beam made a motion to adjourn, and Ms. Baran seconded the motion. The motion was approved unanimously, and the meeting adjourned at approximately 11:32 a.m.

Chair

Secretary