

## **MINUTES**

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

The meeting of the Audit Subcommittee was called to order at 2:03 p.m., February 15, 2021 by the Acting Chair, Chief of Staff, Chris Farr, on behalf of State Treasurer Dale R. Folwell, CPA. The meeting was held 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: Melinda Baran, Steve Beam, and Chris Farr.

#### **Members Absent**

Audit Subcommittee member Michael Lewis was absent.

#### **Guests Present**

The guests attending were: Thomas Rey, Jr. with CliftonLarsonAllen .

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

The staff members present were: Mary Buonfiglio, Thomas Causey, Reid Chisholm, Joan Fontes, Patti Hall, Elizabeth Hawley, 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 an 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.

#### **2020 Audit Entrance Presentation**

The Acting Chair recognized Thomas Rey with CliftonLarsonAllen to present the audit plan for the North Carolina Supplemental Retirement Plans. Mr. Rey noted that as an auditor he believes this meeting is equally as important to the final meeting where results are presented because this meeting gathers perspectives from committee members regarding risks and concerns as the audit is begun. Mr. Rey discussed the goals for the meeting, including introducing CliftonLarsonAllen's team, going over the scope of the engagement, discussing how the team will go about and segment the audit and methodology, reminding the committee members of their roles and responsibilities, holding a discussion on risks and concerns, and concluding with any remaining

questions from the committee members or staff. Mr. Rey's presentation was included in the committee's meeting materials.

Mr. Rey reviewed CliftonLarsonAllen's background and noted the Governmental Retirement Plan Team is a specialized team whose engagement focus is almost exclusively on governmental benefit plans.

Mr. Rey stated the team's primary objective is to perform an audit of the Supplemental Retirement Plans, which will express an opinion on the fair presentation of the financial statements. The team plans and performs the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

Mr. Rey stated that the audit methodology is made up of four phases: Phase 1 and Phase 2 are the preliminary phases where the team does their planning and risk assessment; Phase 3 and Phase 4 are the subsequent field work phases where the team focuses on the financial statements.

Mr. Rey discussed the process where the team will obtain an in-depth understanding of key processes of the entity through discussions with management and review of the Prudential's SOC report under SSAE 18. Based on that understanding the team will develop a risk-based audit approach. Then, the team will perform tests of the key processes identified, as well as effectiveness of controls over contributions, distributions, and participant data, and conclude with employer audits. Mr. Rey then discussed the subsequent field work phase of the audit, where the team reviews the numbers that go into the statements by looking at investments, contributions, distributions, and administrative expenses of the plan.

Mr. Rey then discussed the committee members' role in the process, including the fiduciary duties of loyalty, care, and prudence.

Mr. Rey and the Acting Chair then opened the floor for a discussion on risks. Ms. Baran referred to her ongoing concern regarding cyber security of the system and accounts. She asked if Mr. Rey expected to find any problems in that area this year or if testing would be done. Mr. Rey confirmed the team is sensitive to that specific risk, which is built into their plan and discussions with Prudential. Mr. Rey addressed the concern of risk by explaining that there may be people looking to exploit participant accounts, but the teams' testing covers all levels of risk and any concerns would be addressed in the audit. Mr. Beam followed, asking if Mr. Rey had seen signs of potential or actual attacks with other vendor plans that created problems. Mr. Rey stated that he has not seen this in his specific client base, but there have been other clients of the firm that have experienced ransomware hostage situations. However, the team includes IT auditors to discover such risks and, while it may be possible, they work to ensure the likelihood is low.

Changing the discussion, Mr. Beam asked if the team would include procedural audits around the COVID-19 distributions in 2020. Mr. Beam asked a second question related

to 0% interest rates and concerns that money market funds may experience negative returns due to expenses. Mr. Beam asked if Mr. Rey had seen this occur and, if it is a risk, should the plan look for alternatives. Mr. Rey noted that the team does look at fund balances and would keep that concern in mind, but most reporting would be done at the plan level. Mr. Rey also responded that CliftonLarsonAllen uses data analytics software with all plan transactions, contributions, and distributions, which would include COVID distributions.

The Acting Chair thanked Ms. Baran and Mr. Beam for their questions and their service on the committee.

Mr. Beam asked Ms. Buonfiglio if there are any issues identified by staff that should be raised. Ms. Buonfiglio stated there are not any issues that come to mind, but she believes these are helpful questions around cyber security. Ms. Buonfiglio stated that Mr. Chisholm has worked diligently to keep our large contracts up to date, which include security breach enhancements. Staff also plans investment manager transition events well, keeping risks in mind to mitigate any possible negative outcomes.

The Acting Chair, Ms. Farr, noted that the next time Prudential reports to the committee, it may be useful for them to provide a short segment on cyber risk protections in place.

#### **Public Comment**


No public comments were offered.

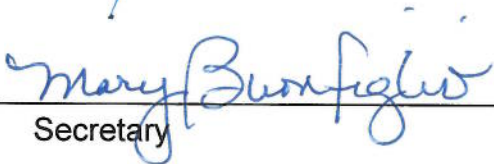
#### **Audit Subcommittee Comments**

Ms. Baran noted the meeting went well and Mr. Beam thanked everyone for their hard work and participation. The Acting Chair, Ms. Farr, reminded everyone of the next board meeting on March 11, 2021.

#### **Adjournment**

There being no further business before the subcommittee, Mr. Beam moved to adjourn, which was seconded by Ms. Baran, and the meeting was unanimously adjourned at 2:36 p.m.

  
Chair

  
Secretary

