

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

**MINUTES OF MEETING**

**February 26, 2018**

**Time and Location:** The Audit Subcommittee (the “Subcommittee”) of the Supplemental Retirement Board of Trustees (the “Board”) met at 10:00 a.m., on Monday, February 26, 2018, in the Dogwood Conference Room, 3200 Atlantic Avenue, Raleigh, North Carolina.

**Members Present:** The following members participated via phone: Melinda Baran, Gene Hamilton, Ron Copley, Michael Lewis.

Dale R. Folwell, CPA, the Supplemental Retirement Plans Board of Trustees Chair, joined the meeting at 10:14 a.m. and left at approximately 10:30 a.m.

**Staff and Guests Present:** The following staff and guests attended the meeting. From the Department of State Treasurer: Mary Buonfiglio, Steve Toole, Reid Chisholm, Maja Moseley, Patti Hall, Rekha Krishnan. Fran Lawrence and Joan Fontes attended via phone. From CliftonLarsonAllen (CLA): Thomas Rey.

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**AGENDA ITEM – WELCOME AND INTRODUCTIONS**

The meeting was called to order by Ms. Buonfiglio at 10:01 a.m. Ms. Buonfiglio welcomed all attendees.

**AGENDA ITEM – ETHICS AWARENESS & IDENTIFICATION OF CONFLICTS OR POTENTIAL CONFLICTS OF INTEREST**

Ms. Buonfiglio asked Subcommittee members to review the agenda for the meeting and identify any actual, implied, or potential conflicts of interest. There were no conflicts identified.

**AGENDA ITEM – NC 401(k)/457(b) PLANS AUDIT ENTRANCE MEETING**

Ms. Buonfiglio recognized Mr. Rey who encouraged the Subcommittee members to treat the meeting as an open discussion and ask questions freely. He directed the attendees’ attention to the presentation included in the meeting materials and described the background of the firm and the dedicated, defined-contribution audit team.

Mr. Rey described the scope of engagement in detail, noting that the objective of the audit is to express an opinion on the fair presentation of the financial statements. He emphasized that the auditor only truly owns the opinion while the management owns the rest of the financial report,

including the financial statements and the footnotes. He commended the Supplemental Retirement Plans staff and the Financial Operations on the financial controls in place.

Mr. Rey continued on to the audit's methodology and the four phases of the process: Planning and strategy, systems evaluation, testing and analysis, and reporting and follow-up. The methodology allows for an in-depth understanding of all key processes of an entity.

Mr. Rey underscored the importance of the Subcommittee members' fiduciary duties of loyalty, care and prudence and encouraged the members to reach out to him with any concerns during the audit process. He noted that fraud interviews will be conducted with the members in the near future.

Following the presentation, the attendees discussed potential risk areas in the Plans and among a peer group of similar plans. Mr. Rey noted that many plans do not have a custodial bank arrangement (as with the Plans); the Plans can rely on that additional layer of control. He added that because the Plans have a recordkeeper and a custodian, fraudulent activity at the financial statements level would be very uncommon.

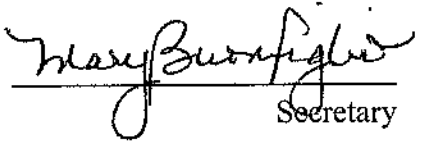
Mr. Copley inquired about the origin and ownership of investment managers' performance data. Ms. Buonfiglio replied that the custodian calculates the performance data and provides it to the investment consultant. Mr. Rey added that the auditors review the investment consultant's reports and confirm the data independently. Ms. Buonfiglio noted that the data is also reviewed by the Plans' Assistant Investment Director. Mr. Hamilton asked about potential errors in members' accounts and how they are discovered. Ms. Buonfiglio replied that in most instances, these are reported to the recordkeeper by the members themselves, or ascertained by the recordkeeper's staff. The members' accounts are made whole by the recordkeeper if the error was determined to have originated in the recordkeeping operations. Lastly, Mr. Rey confirmed that on-site visits with employers, regardless of size, are done on a rotating basis every three years, in addition to annual visits with the large employers.

#### **SUBCOMMITTEE MEMBERS' QUESTIONS/COMMENTS**

On behalf of the Treasurer, Mr. Toole thanked Mr. Rey for the recently negotiated discount for audit services. Mr. Rey commented on his firm's ability to keep the fees at that level is a direct result of how well the staff prepares the financial information for his firm to audit. Mr. Rey thanked the staff for their support in the audit process.

#### **PUBLIC COMMENTS**

There were no public comments. A motion to adjourn was made by Mr. Hamilton and seconded by Mr. Copley. The motion passed unanimously, and the meeting adjourned at approximately 10:40 a.m.

  
Secretary