

**SUPPLEMENTAL RETIREMENT INCOME PLAN OF  
NORTH CAROLINA AND  
NORTH CAROLINA PUBLIC EMPLOYEE DEFERRED  
COMPENSATION PLAN  
CUSTODIAL BANK TRANSFER REVIEW**

**SUPPLEMENTAL RETIREMENT INCOME PLAN OF NORTH CAROLINA AND  
NORTH CAROLINA PUBLIC EMPLOYEE DEFERRED COMPENSATION PLAN**

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CliftonLarsonAllen

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## INDEPENDENT ACCOUNTANTS' REPORT

Ms. Janet Cowell  
Chair of the Board of Trustees  
Supplemental Retirement Income Plan of North Carolina and  
North Carolina Public Employee Deferred Compensation Plan  
Raleigh, North Carolina

Dear Ms. Cowell:

At your request and direction, we performed certain steps to review the custodial transfer of assets of the Supplemental Retirement Income Plan of North Carolina and the North Carolina Public Employee Deferred Compensation Plan (the "Plans"), from State Street Bank to Bank of New York Mellon (the "Custody Transfer"). The procedures performed by us are discussed in the report. Any differences between the procedures set forth in this report and those set forth in the engagement letter reflect modifications that were made at your request or discussed during the course of the engagement. The sufficiency of the procedures is solely your responsibility. Consequently, we make no representation regarding the sufficiency of the procedures described in this report either for the purpose for which this report has been requested or for any other purpose.

Our services consisted of consulting services, and do not constitute an audit, examination, review or compilation of historical financial information conducted in accordance with generally accepted auditing standards or with the other standards established by the American Institute of Certified Public Accountants (AICPA). Accordingly, we are unable to express an opinion or any other form of assurance with respect to any historical financial information.

Our assistance was directed to those activities, operations areas and financial information that you identified as being of concern to you. In performing our services, we conducted inquiries and analysis based on the information made available to us and we relied on the sufficiency, accuracy, and reliability of information provided by the Plans and the Bank of New York Mellon (BNY Mellon).

Accordingly, we do not express an opinion or any other form of assurance on the financial statements, any other financial or non-financial information, management representations, operating controls and internal controls of the Plans.

Our report is intended solely for the information and use of the Plans' management and the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

*CliftonLarsonAllen LLP*

CliftonLarsonAllen, LLP

Baltimore, Maryland  
September 1, 2016



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## **INTRODUCTION**

The purpose of this report is to provide our results regarding the objectives identified in the engagement letter between CliftonLarsonAllen and the Plans dated August 4, 2016. Those objectives, as summarized below and described in detail in the remainder of the report included an independent and unbiased accounting of the Custody Transfer and a report of any errors and monetary impact associated with said transfer of the Plans' assets.

The Supplemental Retirement Plans of North Carolina are governed by the Supplemental Retirement Board of Trustees and consist of the two deferred compensation plans provided to public employees of the State of North Carolina including the Supplemental Retirement Income Plan of North Carolina (401(k) Plan) and the North Carolina Public Employee Deferred Compensation Plan (457 (b) Plan).

The plan documents designate that the general administration and responsibility for carrying out the provisions of the Plan shall, as directed by the Board, be placed with the Retirement Systems Division of the Department of the State Treasurer as Primary Administrator.

The Board, in its role as a fiduciary, has important responsibilities and is subject to standards of conduct because they act on behalf of participants in the Plan. Primary fiduciary responsibilities include acting solely in the interest of plan participants and their beneficiaries with the exclusive purpose of providing benefits to them and carrying out their duties prudently. This report considers the importance of these responsibilities in meeting the objectives described herein.

The Plans' Board of Trustees voted to unbundle the Plans which resulted in changing custodial banks from State Street Bank to BNY Mellon. The assets were transferred on December 31, 2015. The transfer included the transfer of the custodial and accounting records to BNY Mellon. Prior to, during, and after the transfer of the assets and liabilities, BNY Mellon performed numerous reconciliation procedures to assure all assets and liabilities properly transferred.

The scope of the custody transfer review for which we were contracted included two objectives; an independent and unbiased account of the Custody Transfer for all securities including non-custodial assets and a report of errors, if any, and the monetary impact. The procedures designed to achieve those objectives and the results of those procedures are detailed below.

### **OBJECTIVE 1: Independent and unbiased accounting of the Plans' Custody Transfer**

To achieve Objective 1 we:

- Developed an understanding of BNY Mellon's reconciliation procedures,
- Obtained supporting documentation and walked through BNY Mellon's reconciliations prepared during the Custody Transfer and,
- Performed an independent reconciliation of the State Street custodial records obtained during our December 31, 2015 audit of the Plans' financial statements to the December 31, 2015 balances reported by BNY Mellon.

### ***Develop an understanding of BNY Mellon's reconciliation procedures***

Through inquiries with BNY Mellon we obtained the following summary of BNY Mellon's conversion process.

Conversion of assets can be looked at in two parts; custody and accounting. From a custody perspective, BNY Mellon as receiving bank is told what assets and cash will be delivered to them. BNY Mellon will make an initial entry for transactions in the various locations (countries and depositories) to accept these securities and cash. If the trade does not settle they will question the prior custodian to determine the issue and potentially amend trades. In some cases, trades are pending at the prior custodian so shares may be left behind to settle pending sales or shares may be delivered at a later date for pending buys. Cash may also be left behind or netted with cash activity to settle pending buys and may be wired at a later date for pending sales that settle. Any cash that is received at the prior custodian for dividends or interest is also wired to BNY Mellon when received. In some instances, there are corporate actions that are pending on securities. These securities cannot be delivered to BNY Mellon until the action is settled. In many cases, the security eventually delivered or the shares amount being delivered may be different. For instance, BNY Mellon may receive in more shares if there was a stock split or they may receive in an additional security if there was a spinoff. Ultimately, the receiving custodian is told what is being delivered and when.

From an accounting perspective, BNY Mellon, as the receiving bank, provides the accounting records as of the conversion date (December 31, 2015 for the Plans), based on the previous book of record, which was Prudential. BNY Mellon reflects the positions, cash, payables and receivables reported. BNY Mellon prepositioned the accounting records two weeks prior to conversion and mirrored Prudential's activity up until conversion. As of December 31, 2015 BNY Mellon reconciled their accounting records against Prudential's (book of record) so they have the same starting point as of January 4, 2016. BNY Mellon also strikes daily NAV's to ensure they are reconciling to the daily activity. All activity/trades as of the conversion date will be processed normally as the investment managers start trading at the new custodian accounts. Subsequent to the conversion date, as cash is received for various receivables, the accounting records are processed to reduce those receivables. This process is coordinated with the custody conversion group as described above to ensure pending trades are settled to affect the cash movement or dividends and interest are posted to close income receivables.

### ***Obtain supporting documentation and walkthrough BNY Mellon's reconciliations prepared during the Custody Transfer***

We obtained from BNY Mellon, the State Street Bank and BNY Mellon investment holdings detail by individual security as of December 31, 2015 for all securities held in custody of the Plans' custodial bank. We reviewed and re-performed BNY Mellon's reconciliation of the units for each individual security between State Street Bank and BNY Mellon and noted no differences.

We also obtained from BNY Mellon the individual fund level trial balances for State Street Bank and BNY Mellon that were used in BNY Mellon's reconciliation. These trial balances included summary balances for each individual fund's assets, liabilities and net asset value. We reviewed and re-performed BNY Mellon's reconciliation of the summary assets, liabilities and net asset value for each fund between State Street Bank and BNY Mellon and noted no differences.

***Perform an Independent reconciliation of the December 31, 2015 State Street custodial records obtained during our audit of the Plans' December 31, 2015 financial statements to the December 31, 2015 balances reported by BNY Mellon***

In addition to obtaining reconciliations performed by BNY Mellon during the custody transfer described in the section above, we also utilized several reports that were independently confirmed with State Street Bank during our audit of the Plans' December 31, 2015 financial statements.

First, we reconciled the units from the holdings detail as of December 31, 2015 received directly from State Street Bank to the units reported in the BNY Mellon holdings detail obtained directly from BNY Mellon for that same date and noted no differences.

Second, we reconciled the fund level trial balances for each individual fund held at the custodial bank. This reconciliation is similar to the reconciliation performed in the previous section, except we used fund level trial balances that were received directly from State Street Bank. In doing so, we reconciled the summary asset, liability and net asset values for each of the funds between those reported by State Street Bank and BNY Mellon and noted no differences.

Finally, we reconciled the units from our December 31, 2015 independent confirmations with each of the investment funds not held in custody of the custodial bank to BNY Mellon's December 31, 2015 accounting records and noted no differences.

**OBJECTIVE 2: Report errors, if any, and their monetary impact**

We identified no errors during our procedures described in Objective 1, including our review and re-performance of various BNY Mellon reconciliations and our independent reconciliations utilizing reports obtained during our audit of the Plans' December 31, 2015 financial statements.