



Supplemental Retirement Board of Trustees Annual Fiduciary Training

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North Carolina
Total Retirement Plans
401k|457|403b



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Topics

- I. Review of Fiduciary Duty
- II. Investment Subcommittee: Structure and Role
- III. Audit Subcommittee: Structure and Role
- IV. Data Security

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I. Review of Fiduciary Duty



Board's Fiduciary Role

By statute, the Board and the Department are charged with the fiduciary responsibility for managing all aspects of the Plans

- Duty of loyalty
- Duty of care

Examples

- Plan design
- Fund/Manager selection
- Fund/Manager monitoring – Performance and fees
- Recordkeeper selection and monitoring
- Selection of the external auditor and approval of the financial statements



II. Investment Subcommittee: Structure and Role

Structure and Role of the Investment Subcommittee

Structure

- Established by the Board of Trustees' Charter
- Composed of 3-4 Board members who are nominated by the Chair and ratified by the Board
- Meets quarterly at least two weeks prior to the Board meeting

Role

- Oversight of investment managers/funds and options
- Recommendations to the Board regarding changes to the investment managers/funds and options



Review of the Plans' Investments

NC 401(k)/457 Plans: 11 White Label Funds

- Created by the Board
- NC “branded” (e.g., NC Large Cap Core Fund)
- Composed of one or more underlying managers/funds (e.g., Sands)

NC 403(b) Program: 11 Mutual Funds

- IRC does not permit separate accounts or CITs in 403(b) investments

Asset allocation service

- Adopted by the Board
- Offered through Prudential's GoalMaker service
- Targets the “do it for me” participants



Underlying Managers/Funds (NC 401(k)/457 Plans)

Separate Accounts (14)

- Active/core white label funds
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Collective Investment Trusts (CIT) (5)

- Each of the four passive/index white label funds consists of a single CIT
 - The NC Fixed Income Fund consists of a CIT (and a separate account)
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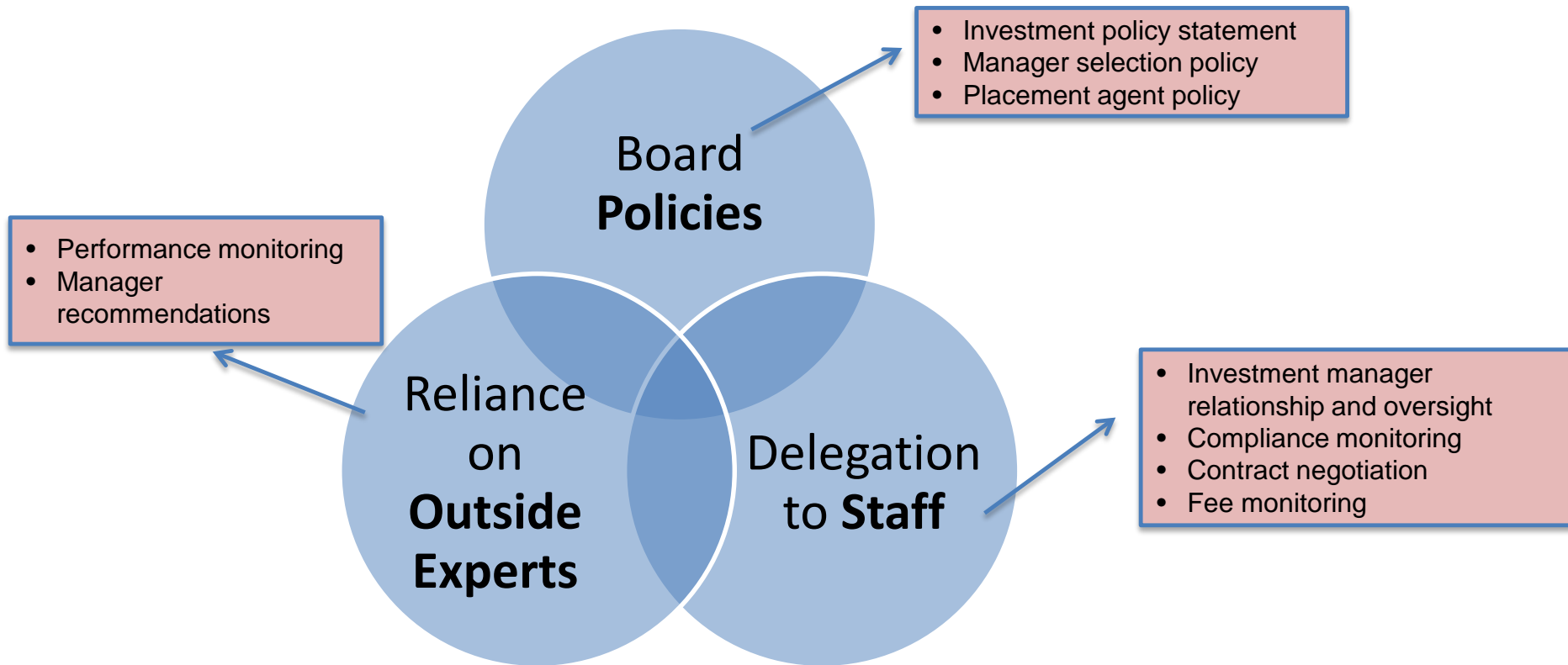
Mutual Fund (1)

- The NC Inflation Responsive Fund consists of a single mutual fund (PIMCO)
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Manager of Managers (1)

- NC Stable Value Fund, managed by Galliard

Investment Selection and Oversight





III. Audit Subcommittee: Structure and Role

Structure and Role of the Audit Subcommittee

Structure

- Established by the Board of Trustees' Charter
- Composed of 3-4 Board members who are nominated by the Chair and ratified by the Board
- Meets at least twice per year

Role

- Oversight of audit of NC 401(k)/457 Plans' financial statements
- Acceptance of financial statements
- Review of findings of compliance testing



Why a Separate Subcommittee?

Specialization

- Enables members to devote sufficient time to learn about a governmental retirement system's financial statements, internal controls, audits, and information technology.

Independence

- Provides independent review and oversight of the financial reporting process and independent auditors.
- Provides members and the auditor with a forum in which they can openly discuss any concerns.



Members: Best Practices

Be involved

- Assist in the selection of the external auditor.
- Meet with the external auditor at least twice per year.
- Ask questions and challenge the process.

Be knowledgeable

- Stay abreast of significant changes to auditing standards.
- Understand the audit risks (*e.g.*, investments, contributions, benefits, disbursements).
- Prioritize the audit issues.

Be proactive

- Ensure follow-up and management accountability.
- Follow up on prior year's management letter comments.



IV. Data Security

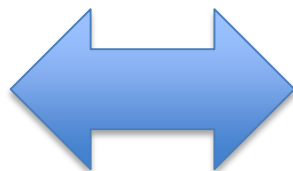


Data Security Plan

A comprehensive data security plan requires appropriate culture and tone “at the top,” which includes an awareness of the importance of security that extends from the Board and senior management to every level of the organization

Information Most at Risk and Most Common Threats:

- Social Security numbers
- Dates of birth
- Addresses
- Email addresses
- Bank account information
- Employee compensation data
- Account balances



- Ransomware
- Phishing
- Wire/Email fraud
- Malware



Evaluating a Data Security Plan

Threat

- Defense and mitigation
- Detection, intelligence, and analysis

Incident

- Response
- Remediation and recovery



Roles and Responsibility for Data Security

Board and Subcommittee

- Monitor the cybersecurity programs of the Department, the recordkeeper, and the custodian.
- Audit Subcommittee, in its role of overseeing risk management activities, is in a position to take the lead in monitoring and to serve as a liaison with other groups.

Staff

- Reviews the policies, procedures, and initiatives of the recordkeeper, the custodian, and other vendors (as applicable).
- Works with internal and external parties in the event of an incident.

Internal Audit: The Board/Audit Subcommittee may request a report from the Department's audit team regarding the Department's cybersecurity program.

External Auditor:

- May serve as a resource for information on cybersecurity issues.
- May be requested to review cybersecurity programs of selected employers in the Plans.

External Specialists: May be retained by the Board to evaluate cybersecurity risks and programs.



**Questions?
Thank you**

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Appendix



Data Security Law and Standards

North Carolina Law

- N.C.G.S. § 75-65: Notice requirements for a security breach

Federal Law

- Gramm-Leach-Bliley Act (“GLB Act”): Requires an information security program and notices of privacy policy and practices.
- Securities and Exchange Commission Regulation S-P: Financial institutions must adopt policies to ensure the security of customer information
- Federal Trade Commission
 - Red Flag Rules
 - GLB Act Safeguards Rules (information security program)

Industry Standard

Society of Professional Asset Managers and Recordkeepers (SPARK): Established uniform data management standards

Additional resources

Audit

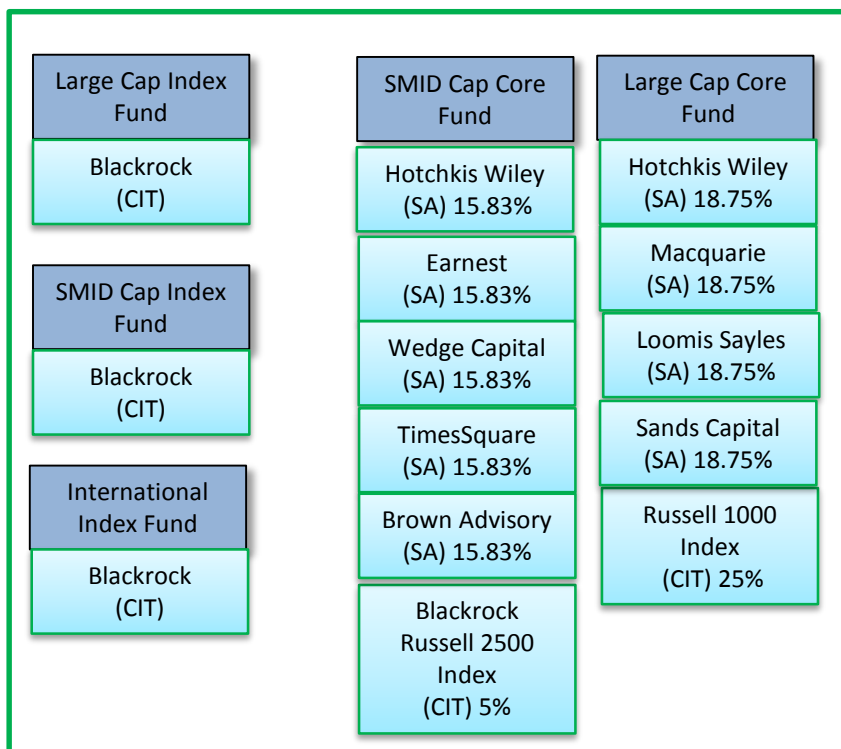
- American Institute of CPAs (AICPA, www.aicpa.org)
 - Audit Committee Toolkit: Government Organizations
 - “Management Override of Internal Controls: The Achilles Heel of Fraud Prevention,” guidance to Audit Committees
- Association of Government Accountants (www.agacgfm.org): Characteristics of Effective Audit Committees in Federal, State and Local Governments
- Government Finance Officer Association (www.gfoa.org): Best Practice, Audit Committees

Data Security

- NC Information Technology: it.nc.gov
- NAGDCA.org: “Cybersecurity: Are Public Defined Contribution Plans at Risk?”
- National Initiative for Cybersecurity Education (NICE): www.nist.gov

Structure of the White Label Funds

Equity Funds



Fixed Income/SV/Inflation Funds

