

# The North Carolina Supplemental Retirement Plans

## Audit Sub-Committee Presentation

*February 15, 2023*



# Agenda

- Who Are We?
- Industry Experience
- Scope of Engagement
- Audit Methodology
- Trustee Fiduciary Duties
- Discussion of Risks
- Questions
- Contact



# Who Are We?

- Top 30 accounting firm in the country
  - 32 U.S. locations
- Industry specialists
  - Governmental Retirement Plan Team



Founding member of 17<sup>th</sup> largest accounting network in the world

*An Accounting Today* 2022  
Pacesetter for growth

32 U.S. locations

2021 revenue of  
\$221 million

1,500 employees



# Industry Experience

- 20+ Years serving Governmental Defined Benefit, Deferred Compensation Plans and Investment Trusts
- Sub-niche dedicated to Governmental Pension Plans
- Proposed team has served over 30 State and Local Retirement Plans
- Experience auditing sophisticated investment portfolios



# Industry Experience

Sampling of audits performed in the past five years by members of UHY's team

|   | Asset Size   |                  |               |
|---|--------------|------------------|---------------|
|   | <\$1 billion | \$1-\$10 billion | >\$10 billion |
| Public Sector Agencies  |              |                  |               |
| California Department of Human Resources Savings Plus Program |              |                  | X             |
| City of Philadelphia Deferred Compensation Plan               | X            |                  |               |
| City of Phoenix Employees' Deferred Compensation Plan         |              | X                |               |
| Federal Thrift Plan   |              |                  | X             |
| Kentucky Deferred Compensation Authority                      |              | X                |               |
| Massachusetts Employees Deferred Compensation Plan            |              | X                |               |
| Montgomery County Union Employees Deferred Compensation Plan  | X            |                  |               |
| Nevada Deferred Compensation Plan                             | X            |                  |               |
| New York City Deferred Compensation Plan                      |              |                  | X             |
| New York State Deferred Compensation Board                    |              |                  | X             |
| Seattle City Deferred Compensation Plan                       | X            |                  |               |
| State of Arizona Deferred Compensation Plans                  |              | X                |               |
| State of Idaho Deferred Compensation Plan                     | X            |                  |               |
| State of New Hampshire Public Employees Deferred Compensation | X            |                  |               |
| South Carolina Deferred Compensation Plan                     |              | X                |               |
| Supplemental Retirement Plans of North Carolina               |              |                  | X             |



# Scope of Engagement

- Perform an Audit of the North Carolina Supplemental Retirement Plans' (401K & 457) Financial Statements for 2022 Under U.S. Generally Accepted Auditing Standards and U.S. Generally Accepted Government Auditing Standards
  - The primary objective of our audit is to express an opinion on the fair presentation of the financial statements.
  - We plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected.
- Serve as a Resource throughout the Year



# Audit Methodology

## TAILORED APPROACH



# Audit Methodology – Internal Control

- Obtain an in-depth understanding of all key processes of the entity through discussions with management and review of the Empower’s SOC 1 Report(s) under SSAE 18.
- Based on our understanding obtained we will develop a risk-based audit approach to effectively reduce audit risk to an acceptably low level
- Perform tests of design of key processes identified
- Perform tests of effectiveness over contributions, distributions, and participant data
- Perform employer audits
  - Accurate remittance of contributions to Empower
  - Timely remittance of contributions to Empower
  - Remitted contributions did not exceed IRS limitations
  - Participant data reported to Empower completely and accurately





# Audit Methodology – Substantive Testing

- Investments
  - Confirmations with Empower, BNY and investment managers
  - Valuation testing
  - Analytical procedures over investment and interest income
  - Analytical procedures over investment expenses
- Contributions
  - Confirm contributions with a sample of employers
  - Analytical procedures over contributions
  - Reconciliation of contribution detail to trial balance
- Distributions
  - Analytical procedures over distributions
  - Reconciliation of distribution detail to trial balance
- Administrative Expenses
  - Analytical procedures over administrative expenses



# Trustee Fiduciary Duties

- **Duty of Loyalty** – The obligation to act for the exclusive benefit of the plan participants and beneficiaries
- **Duty of Care** – The responsibility to administer the plan efficiently and properly
- **Duty of Prudence** – The obligation to act prudently in exercising power or discretion over the interests that are subject to the fiduciary relationship.



# Trustee Duties: Accountability & Transparency

- The presence of an *effective* audit committee encourages staff to increase the level of care in preparing financial statements
- The presence of an audit committee can result in staff being more attentive to how money was spent by reviewing pension system spending patterns
- The audit committee can put more focus on risk management and internal controls
- Provides another “set of eyes” ensuring reports are understandable, moving the reports from “jargon” to information
- Enhances credibility (financial statements, internal audit, CFO and finance departments)
- Ensures things get done



# Fiduciary Responsibility (cont'd)

- Assess annual audit implications and approve action plans to strengthen performance
- Establish and monitor a system to ensure that the organization is in compliance with all relevant financial laws and regulations
- Approve non-routine contractual obligations as defined by approved board expenditure authorization policies
- Establish adequate risk management mechanisms



# Discussion of Risks

- The Sub-Committee's views about the risks of fraud
- Does the Sub-Committee have knowledge of any fraud or suspected fraud affecting the entities
- Does the Sub-Committee have an active role in oversight of the entities' assessment of the risks of fraud and the programs and controls established to mitigate those risks
- Other risks



# Questions



# Contact



## Thomas Rey

Partner  
trey@uhy-us.com  
410 423 4820





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