



The Commonwealth of Massachusetts

Office of the State Treasurer

Defined Contribution Plans

Boston, Massachusetts (2108-1608)

Deborah B. Goldberg
Treasurer and Receiver General

David Lynch
Executive Director

NOTICE OF MEETING DEFERRED COMPENSATION AUDIT ADVISORY BOARD

In accordance with §§18-25 of Chapter 30A of the Massachusetts General Laws and 940 CMR 29.03, notice is hereby given of a meeting of the Deferred Compensation Audit Advisory Board to be held at the following time and location:

**Monday, November 9, 2020
10:00 a.m.**

Join Zoom Meeting
<https://zoom.us/j/99599292076>

Meeting ID: 995 9929 2076
One tap mobile
+16465588656, 99599292076# US (New York)
+13017158592, 99599292076# US (Germantown)

(Agenda Items expected to be discussed are attached)

Note: Remote meeting participants should contact Giuseppe Caruso, Operations Associate, Defined Contribution Plans, at (781) 343-3358 or gcaruso@tre.state.ma.us if there are any difficulties accessing the meeting conference call line.



Agenda

Deferred Compensation Plan Audit Advisory Board November 9, 2020 10:00 AM

Join Zoom Meeting

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- I. Approval of the February 24, 2020 Meeting Minutes
- II. Review of 2019 Audit Report, CliftonLarsonAllen, LLP
 - Review of Financials
 - Recommendations
 - Q&A
- III. GASB Statement No. 97
- IV. Public Comment
- V. Close Meeting

**Office of the State Treasurer and Receiver General
Commonwealth of Massachusetts Employees Deferred Compensation Plan
Audit Advisory Board Meeting Minutes
November 9, 2020**

The Audit Advisory Board (the “Advisory Board”) for the Commonwealth of Massachusetts Employees Deferred Compensation Plan (“Plan”) met, pursuant to notice, on November 9, 2020 via video conference. Present for all or part of the meeting were Sue Perez, Advisory Board Chair, and the other two Board Members, Henry Clay and Drew Smith.

Also present: Thomas Rey, CPA, Partner, CliftonLarsonAllen, LLP (“CLA”); Tonia Shultz, Senior Associate, CLA; Giuseppe Caruso, Operations Associate, Defined Contribution Plans; Nicola Favorito, Deputy Treasurer / Executive Director, Retirement Board; Karen Guida, Treasury Internal Auditor; Sarah Kim, Deputy Treasurer / General Counsel; David Lynch, Executive Director, Defined Contribution Plans; Emily Robbins, Defined Contribution Plans Counsel; and Laura Rooney, Director of Operations, Defined Contribution Plans. Robert Sheridan, Deferred Compensation Committee Chair; and Deferred Compensation Committee members John Curran and Thomas Magno also attended the meeting as members of the public.

The following materials, used throughout the meeting, were distributed in advance:

1. Agenda for the November 9, 2020 Audit Advisory Board Meeting;
2. Minutes of the February 24, 2020 Audit Advisory Board Meeting;
3. CLA’s Audit Presentation for Plan Year 2019 (“Audit Presentation”);
4. Financial Statements for Plan Year 2019 for the 457 Deferred Compensation Plan; and
5. Management Letter for Plan Year 2019 for the 457 Deferred Compensation Plan.

Call to Order:

With all Board Members present to establish quorum, Ms. Perez called the meeting to order at 10:06 a.m. Ms. Perez welcomed everyone in attendance to the meeting and briefly introduced Board Members Mr. Clay and Mr. Smith.

Ms. Perez noted that the meeting was being conducted via video conference in accordance with the Order Suspending Certain Provisions of the Open Meeting Law, M.G.L. c. 30A § 20 issued by Governor Baker on March 12, 2020. Ms. Perez advised attendees of the recording parameters under the Open Meeting Law M.G.L. c. 30A, §§ 18-25 and applicable regulations. Ms. Perez then instructed the Advisory Board and guests to notify the meeting members if any part of the meeting was not audible. Ms. Perez conducted a roll call of the meeting attendees to confirm attendance and identify those recording the meeting, if any. Attendees confirmed that no one was recording the meeting.

Ms. Perez asked for motion to approve the minutes of the prior meeting held on February 24, 2020. Mr. Smith made a motion to approve, seconded by Mr. Clay. On roll call, Mr. Smith, Mr. Clay and Ms. Perez confirmed approval of the February 24, 2020 meeting minutes.

Ms. Perez then invited Mr. Rey to give a presentation of the CLA Audit of the Plan for Calendar Year 2019.

Mr. Rey directed the Advisory Board's attention to the Audit Presentation (visible on each individual's computer screen). Referring to the Audit Presentation agenda, Mr. Rey noted that his discussion would primarily serve as an overview of the Audit for the Advisory Board. Mr. Rey stated that no significant deficiencies and no material findings were identified during the course of the audit. He then went into greater detail on the process.

On the Financial Statement Audit Scope, Mr. Rey noted to the Advisory Board that the scope of the Audit was to express an opinion on the fair representation of the financial statements for Plan Year 2019 and that CLA plans and performs the Audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, in accordance with U.S. Generally Accepted Auditing Standards (U.S. GAAP).

On the Audit Methodology, Mr. Rey referred to CLA's four phase approach: Planning and Strategy, Systems Evaluation, Testing & Analysis, and Reporting and Follow-Up. Mr. Rey noted that the first two phases are typically completed in the preliminary phase prior to plan year end, while the final two phases are completed post-plan year end.

On Audit Methodology for Internal Controls, Mr. Rey stated the objective is to obtain an in-depth understanding of key processes of the entity through discussion with management and review of the SSAE 18/SOC Reports for both the recordkeeper, Empower Retirement, and custodian, Northern Trust. Mr. Rey also noted that based on this understanding gathered during preliminary field work, CLA would develop a risk assessment of the key risk areas and perform tests of design of key processes, as well as effectiveness over contributions, distributions, and participant data.

On Audit Methodology for Substantive Testing, Mr. Rey noted the topic areas involved in the testing. For investments, Mr. Rey stated that this included confirmation with the third-party administrator, the custodian, and the investment managers, as well as valuation testing and analytical procedures over investment, interest income, and investment expenses. Mr. Rey continued and noted testing methodologies on contributions, distributions, and administrative expenses.

Finally, on the 2019 Audit Results, Mr. Rey informed the Advisory Board that the Plan had received an unmodified, or "clean," opinion in conformity with U.S. Generally Accepted Accounting Principles (GAAP).

Mr. Rey directed the Advisory Board's attention to the overview of the 2019 Financial Statements. Mr. Rey continued with a brief overview, stating that Plan assets were just over \$10.1 billion at end of Plan Year 2019, compared to \$8.5 billion at end of Plan Year 2018. Mr. Rey also noted no significant or new changes from an accounting or GASB perspective.

Mr. Clay asked Mr. Rey what comprises the CLA review of the reasonableness of administrative expenses, with respect to scrutiny of excessive fees and charges. Mr. Rey responded that CLA reviews investment manager fees for reasonableness, and that these are readily accessible for review via the custodial bank. Mr. Rey also noted that for administrative expenses, CLA compares similar charges year-to-year to ensure there are no significant discrepancies.

Ms. Perez asked what changes had been implemented to ensure the Plan Year 2019 Audit was complete in a timely manner, citing challenges in completing prior Plan Year audits. Ms. Guida responded, noting that CLA has direct access to the relevant Empower systems in order to access Plan data, as approved by the Plan. Ms. Guida also stated that CLA has a more efficient and less labor-intensive approach compared to the prior Plan auditor, and CLA have generally been very responsive on all requests. Mr. Rey continued, stating his team's familiarity with government plans, focusing primarily on large defined benefit and state-level defined contribution plans. Mr. Rey also reiterated an earlier point by Ms. Guida on the benefit and efficiency of direct access to the Empower system, as this provides the necessary data to help develop the Financial Statement.

Mr. Rey concluded his presentation with an overview of the Required Governing Body Communications, inclusive of the letter description of the Auditor's responsibility under US GAAP, significant accounting policies, management judgements and accounting estimates, and financial statement disclosures. In regard to the management judgements and accounting estimates, Ms. Rey noted that this primarily related to the valuation of the stable value fund, citing daily crediting rates and actuarial estimates.

Mr. Rey noted no new financial statement disclosures and no passed adjustments. Mr. Rey complimented management as cooperative and professional throughout the audit process and that there were no disagreements with management.

Mr. Clay asked if CLA agreed with the valuation methodology for the stable value fund. Mr. Rey responded in the affirmative, noting that performance is monitored by both Plan management and the Plan investment consultant, Aon Investment USA, Inc. Mr. Rey stated that for GASB purposes, in terms of valuation at Plan Year End, the fair value of the Stable Value Fund is at contract value, while the fair value for the underlying securities is at market value. Mr. Rey clarified that CLA reviews both valuations but noted that the underlying values were not significantly different than the contract value.

To conclude, Mr. Rey opened a discussion for any questions from the Advisory Board or management regarding GASB Statement No. 97. Mr. Rey noted that this may impact the Commonwealth of Massachusetts if the Plan were to be identified as a fiduciary fund. In such a case, Mr. Rey stated that the Plan Audit would be included as a part of the Commonwealth of Massachusetts Audit. However, Mr. Rey stated that he did not foresee significant changes to the preparation of the financial statement itself. Mr. Rey also cited delayed implementation of GASB 97 measures, now effective for 2022, due to the ongoing Covid-19 pandemic.

Ms. Perez asked if the dissimilar fiscal year end dates between the Plan (12/31) and the Commonwealth (6/30) would present an issue, should the Plan fall under the Commonwealth Audit. Mr. Rey responded that there would not be an issue, as the Plan financial statement would simply denote data as of 12/31. Mr. Rey noted that even if identified as a fiduciary fund, the Plan would not be required to change its plan year end date. Ms. Guida did note that in the event the Plan needed to fit under the Commonwealth audit, the Plan financial statements would need to be completed consistent with the timing for the broader audit.

Ms. Perez thanked Mr. Rey for the presentation.

Ms. Perez asked if there was any comment for the public. There being none, Ms. Guida continued and voiced her appreciation of the diligent work Ms. Shultz as audit manager. Ms. Kim and Mr. Lynch also complimented both Ms. Shultz and Mr. Rey for their work on the audit.

With no further questions or comments, Ms. Perez asked for a motion to adjourn. Mr. Clay moved to adjourn the meeting and Mr. Clay seconded the motion. The Advisory Board Meeting was adjourned at 10:35 a.m. via roll call: Mr. Clay, Mr. Smith, Ms. Perez.