



# *The Commonwealth of Massachusetts*

*Office of the State Treasurer*

*Defined Contribution Plans*

*Boston, Massachusetts 02108-1608*

*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, 940 CMR 29.03, and Chapter 20 of the Acts of 2021 notice is hereby given of a meeting of the Deferred Compensation Audit Advisory Board to be held at the following time and location:

**Friday, February 18, 2022  
10:00 a.m.**

### **Join Zoom Meeting**

**<https://us06web.zoom.us/j/82095091863?pwd=SVRWaDdZeDJrWDZXNjN2bkFoMVVpZz09>**

**Meeting ID: 820 9509 1863**

**Passcode: 077885**

**One tap mobile**

**+16465588656, 82095091863#,,,,\*077885# US (New York)**

**+13017158592, 82095091863#,,,,\*077885# US (Washington DC)**

(Agenda Items expected to be discussed are attached)

*Note:* Remote meeting participants should contact Joel Massa, Operations Associate, Defined Contribution Plans, at (857) 310-0861 or at [joel.m.massa@tre.state.ma.us](mailto:joel.m.massa@tre.state.ma.us) if there are any difficulties accessing the meeting conference call line.



## Agenda

### Deferred Compensation Plan Audit Advisory Board February 18, 2022, 10:00 AM

#### Join Zoom Meeting

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- I. Approval of the November 9, 2020 Meeting Minutes
- II. Review of 2020 Audit Report, CliftonLarsonAllen, LLP
  - Review of Financials
  - Recommendations
  - Q&A
- III. Public Comment
- IV. Miscellaneous
- V. Other Business – Reserved for Matters the Chair did not Reasonably Anticipate at the Time of Posting
- VI. Close Meeting

**Office of the State Treasurer and Receiver General**  
**Commonwealth of Massachusetts Employees Deferred Compensation Plan**  
**Audit Advisory Board Meeting Minutes**  
**February 18, 2022**

The Audit Advisory Board (the “Advisory Board”) for the Commonwealth of Massachusetts Employees Deferred Compensation Plan (“Plan”) met, pursuant to notice, on February 18, 2022 via video conference. Present for all or part of the meeting were Sue Perez, Advisory Board Chair and Board Member, Henry Clay. Currently we have a vacant seat on the board which is in the process of being filled.

Also present: Tonia Shultz, Senior Associate, CLA; Jim Piotrowski, CPA Principal, CLA; 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; Laura Rooney, Director of Operations, Defined Contribution Plans; Joel Massa, Operations Associate, Defined Contribution Plans; Caitlin Marksteiner, Operations Associate, 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 February 18, 2022 Audit Advisory Board Meeting;
2. Minutes of the November 9, 2020 Audit Advisory Board Meeting;
3. CLA’s Audit Presentation for Plan Year 2020 (“Audit Presentation”);
4. Financial Statements for Plan Year 2020 for the 457 Deferred Compensation Plan; and
5. Management Letter for Plan Year 2020 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 10:03 a.m. Ms. Perez welcomed everyone in attendance to the meeting and briefly introduced Board Member Mr. Clay.

Ms. Perez noted that the meeting was being conducted via video conference in accordance to Chapter 20 of the Acts of 2021, which permits remote participation by all Board members via the use of adequate alternative means, such as a conference call line or in this case Zoom, to ensure public access to the deliberations of the Board. All votes taken will be by roll call. 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 conducted a roll call of the meeting attendees with each individual providing a brief introduction and confirm attendance. Ms. Perez inquired if anyone present was recording the session to please make note. Attendees confirmed that no one was recording the meeting.

Ms. Perez asked for motion to approve the minutes of the prior meeting held on November 9, 2020. Ms. Perez made a motion to approve, seconded by Mr. Clay. On roll call Mr. Clay and Ms. Perez confirmed approval of the November 9, 2020 meeting minutes.

Ms. Perez then invited CLA to give a presentation of the Audit of the Plan for Calendar Year 2020.

Mr. Piotrowski introduced himself to the board taking over for Thomas Rey in prior year, would take the lead introduction in the Audit of the Plan for Calendar year 2020. Mr. Piotrowski directed the Advisory Board’s attention

to the Audit Presentation (visible on everyone's computer screen). Referring to the Audit Presentation agenda, Mr. Piotrowski noted that his discussion would primarily serve as an overview of the Audit for the Advisory Board. Starting with the terms of engagement, the results of findings stated that no significant deficiencies and no material findings were identified during the 2020 audit. Mr. Piotrowski described each of the Terms of Engagement, which are to provide independent auditors' report, report on internal control report and also governance communication for significant findings.

On the Financial Statement Audit Scope, Mr. Piotrowski noted to the Advisory Board that the scope of the Audit was to express an opinion on the unmodified representation of the financial statements for Plan Year 2020 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). Independent Auditors' Report on Internal Control and Compliance showed no significant findings reported and the Governance Communication Letter was distributed in as part of the meeting materials.

Ms. Shultz began her discussion with the key financial statements from 2020 starting with the Statement of Fiduciary Net Position, where there was a 15.8% increase due to favorable market position. Ms. Shultz also noted a slight change of 2.4% in fiduciary net position since 2019. Asset allocation comparison of 2019-2020 showed Large Cap Fund comprises the largest percentage of the allocation, with a slight increase in 2020, where Stable Value, Bonds, Global/Int'l and Self-directed funds appeared to have no percentage change. Target Date and Small/Mid/Specialty funds had a lower percentage of the allocation than in 2019.

Ms. Shultz discussed the Asset Composition as of 12.31.2020 providing the following breakdowns: 29% of assets are separately managed accounts, 46% commingled and trust funds, 19% investment contracts and 6% in mutual funds.

Ms. Shultz discussed CLA's Audit Methodology in regard to a four phase approach: Planning and Strategy, Internal Control Systems Evaluation, Testing & Analysis, and Reporting and Follow-Up.

For Audit Methodology for Systems Evaluation, Ms. Shultz 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, and custodian, Northern Trust. Ms. Shultz also noted that based on this understanding, CLA would develop a risk assessment of the key risk areas and perform tests of design and implementation of key processes, as well as effectiveness of internal control over contributions, distributions, and participant data.

In regard to the Audit Methodology for Testing and Analysis, Ms. Shultz noted the topic areas involved in the testing. For investments, Ms. Shultz stated that this included confirmation with the third-party administrator, Empower, the custodian, Northern Trust, and the investment managers, as well as valuation testing and analytical procedures over investment, interest income, and investment expenses. Ms. Shultz continued and noted testing methodologies on contributions, distributions, and administrative expenses.

Ms. Shultz ended her presentation with going into Governance Communications and stated financial statement disclosures were neutral, consistent, and clear. There were no past adjustments made and no disagreements with management or significant matters discussed. There were also no new policies or communications changed for the 2021 audit year.

In response to Ms. Shultz's call for questions, Ms. Perez had asked if there were any challenges during the year. Ms. Shultz did inform the board of a slight delay in issuance from CLA but they do not anticipate this will occur again

for next year. Ms. Guida also made note that the delay was in part due to other priorities within the Defined Contributions Plans department, as well as employee turnover.

Mr. Clay asked if there were any issues with validation at the CUSIP level. Ms. Shultz stated there were none identified. Mr. Clay asked if expenses and/or if the manager fees were tested for reasonableness. Ms. Shultz stated the investment manager fees met the standards of reasonableness and that administration fees charged to the SMART Plan participants align with those of other plans. Mr. Piotrowski also stated while reviewing the fees there was nothing out of the ordinary and the fees were comparable to other plans.

Ms. Guida asked if there was any new regulations or pronouncement that would impact our future audits. Mr. Piotrowski cited updates to SAS 134, which may lead to additional procedures on disclosures and additional communication of risks to the Defined Contributions Plan team. However, Mr. Piotrowski noted there is nothing on the immediate horizon that he thought would impact us.

Ms. Perez thanked CLA for the presentation.

Ms. Perez asked if there were any additional questions for CLA. There being none, all members voiced their appreciation on the meeting and work being performed 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 Ms. Perez seconded the motion. The Advisory Board Meeting was adjourned at 10:25 a.m. via roll call: Mr. Clay and Ms. Perez.