



**MINUTES FROM THE AUDIT AND GOVERNANCE COMMITTEE
OF THE PLANS MANAGEMENT BOARD
AUGUST 11, 2020**

A meeting of the Audit and Governance Committee (the “Committee”) of the Plans Management Board (the “Board”) was held August 11, 2020, 10:00 a.m. Pursuant to paragraph 5 of Governor Carney’s Executive Order, dated March 12, 2020, declaring a state of emergency due to the Covid-19 pandemic, the meeting was held telephonically, without a physical location. Members of the public were able to participate using the provided dial-in information.

Committee Members Represented or in Attendance:

Mr. Peter Kennedy, Committee Chair
Mr. John Macedo, Committee Member
Mr. Timothy J. Snyder, Committee Member
The Honorable Colleen C. Davis, State Treasurer
Mr. Gerard Gallagher, Board Member At-Large

Others in Attendance:

Mr. Jason Staib, Deputy Attorney General, Delaware Department of Justice
Mr. John Meyer, Director of Contributions and Plan Management, Office of the State Treasurer (“OST”)
Mr. Daniel Kimmel, Promotion and Outreach Program Manager, OST
Mr. Michael Green, Investment and Program Manager, OST
Mrs. Deborah Bradl, Executive Assistant, Contributions and Plan Management, OST
Mr. Daniel Madrid, Chief Operating Officer, OST
Ms. Maria Hurd, Director, Belfint, Lyons, and Shuman (“BLS”)
Mr. Earle Allen, Cammack Retirement Group (“Cammack”)
Ms. Marie Villeneuve, Cammack
Mr. Rob Peel, Cammack
Mr. David Biddle, Biddle Capital Management

CALLED TO ORDER

The meeting was called to order at 10:00 a.m.

APPROVAL OF MINUTES

A MOTION was made by MR. GALLAGHER and seconded by TREASURER DAVIS to approve minutes from the Committee meeting on May 12, 2020.

MOTION ADOPTED UNANIMOUSLY

PRESENTATIONS

401(a) Match Plan Audit Report (2019)

Ms. Hurd provided the Committee with the audit report for the plan year 2019 for the 401(a) Match plan. Ms. Hurd stated total plan assets increased by \$2.7 million during 2019 from \$20.2 million at December 31, 2018 to \$22.9 million at December 31, 2019. This increase was primarily due to net appreciation of investments being greater than distributions from the plan during 2019. Ms. Hurd stated that the average account balance increased from approximately \$2,083 in 2018 to approximately \$2,452 in 2019. There was a decrease in the total number of accounts with balances from approximately 9,700 participant accounts in 2018 to approximately 9,300 participant accounts in 2019. Distributions increased from \$1.1 million in 2018 to \$1.2 million in 2019. Fluctuations in the amount of distributions paid from year to year are primarily due to changes in the number of participants and beneficiaries receiving eligible distributions per year as well as the size of their account balances. Ms. Hurd noted there were approximately 700 disbursements for plan years 2018 and 2019. Plan administrative expenses decreased from approximately \$80,000 in 2018 to approximately \$60,000 in 2019. Fluctuations in these fees are the result of different arrangements with the service providers, as well as assets held by the Plan, since these are asset-based fee charges, and the number of transactions charged directly to participant accounts.

457(b) Audit Presentation (2019)

Ms. Hurd provided the Committee with the audit report for plan year 2019 for the 457(b) Plan. Ms. Hurd stated that in plan year 2019 there was a \$123 million dollar increase in assets from \$613 million in 2018 to \$736 million dollars in 2019. Ms. Hurd attributed the growth in assets to contributions and earnings being more than distributions during 2019. Ms. Hurd stated that the total number of accounts with balances saw an increase from 16,300 in 2018, to 16,400 in 2019. Ms. Hurd noted that there was an increase in the average account balance from \$37,753 in 2018 to \$44,911 in 2019. The average distribution decreased from \$24,151 in 2018 per person to \$23,400 per person in 2019. The number of employees contributing to the plan decreased slightly from 10,746 in 2018, to 10,665 in 2019. Contribution amounts increased during this period from \$37.5 million in 2018 to \$38.3 million in 2019. Changes in contributions are primarily due to fluctuations in the average contribution per participant and number of active plan participants.

Ms. Hurd stated that administrative expenses decreased from approximately \$1.0 million, to approximately \$800,000 for the years ended December 31, 2018 and 2019. Ms. Hurd attributed the decrease to fluctuations generally related to changes in the service agreements and how fees have been paid in the past compared to the current year, as well as the assets held by the Plan, since these are asset based fee charges, and the number of transactions charged directly to participant accounts.

There were three audit findings. Ms. Hurd identified audit findings regarding Roth deferrals withheld from Delaware Transit Corporation's payroll were not appropriately reported on the W-3 and participant W-2s. Delaware Transit Corporation has indicated that they will endeavor to correct the Roth contribution reporting on their payroll system. There is no impact to the plan from this payroll finding. Ms. Hurd also noted a second finding. While performing required minimum distribution (RMD) testing, BLS noted several deceased participants whose beneficiaries may be required to begin or continue taking RMD's. BLS inquired of Voya who indicated that the participant's beneficiary must initiate a death claim and provide the death certificate to begin processing RMD's.

Additionally, BLS noted that a beneficiary had been deceased since February 26, 2005, but, continued to have RMD's processed up until 2019.

BLS recommends that the State of Delaware management track and attempt to find the beneficiaries for deceased participants awaiting a death claim. Finally, BLS noted as of December 31, 2019, the plan held \$603 of warrants and \$117 of options in the TD Ameritrade self-directed brokerage account. The Plan's investment policy statement states Tier 3 of the Plan's investment options offers a self-directed brokerage account option that provides participants with the opportunity to allocate their contributions to investments not otherwise offered in the Plan's investment array. Participants in the Plan can invest in individual stocks and bonds, exchange traded funds and mutual funds. Since the self-directed brokerage account is offered through TD Ameritrade, BLS recommends that the Investment Committee either have the Delaware State Assembly change Title 29 and update the investment policy statement, or, monitor the self-directed brokerage account for any investments not falling within Section 6057 of Title 29.

403(b) Plan Audit Report (2019)

Ms. Hurd provided the Committee with the audit report for the plan year 2019 for the 403(b) Plan. Ms. Hurd stated that total plan assets increased by \$67 million dollars from \$378 million in 2018 to \$446 million in plan year 2019. Ms. Hurd stated that participant contributions increased from \$22.3 million in plan year 2018 to \$24.5 million in plan year 2019. Changes in contributions are primarily due to fluctuations in the average contribution per participant and number of active plan participants. Ms. Hurd stated that the total number of active accounts with balances increased by 355 accounts from approximately 5,400 in 2018 to 5,755 in 2019. Distributions decreased from approximately \$30 million in plan year 2018 to approximately \$27 million in plan year 2019. Fluctuations in the amount of distributions paid from year to year are primarily due to changes in the number of separated, deceased, or retired participants and beneficiaries receiving eligible distributions per year as well as the size of their account balances.

Ms. Hurd stated that administrative expenses increased from about \$781,173 in plan year 2018 to \$889,475 in plan year 2019. Fluctuations in these fees are the result of different arrangements with the service providers and the number of transactions charged directly to participant accounts.

There were two audit findings. First, Security Benefit provided BLS with an audit package that consisted of a participant account balance report and a schedule of investments for the Plan. BLS identified 14 participant accounts totaling \$1,207,046.61 at December 31, 2018 that were not on the Security Benefit legacy vendor statements and confirmations for the plan year ending December 31, 2019. BLS recommends that State of Delaware 403(b) Plan officials work with Security Benefit personnel to ensure complete and accurate confirmations and statements are issued to the State of Delaware plan officials and auditors. BLS obtained individual account statements for the participants that were missing on the account balance report and included the account balances and activity during the year in those accounts on the financial statements.

Second, Ms. Hurd indicated that Security Benefit provided BLS with an audit package that consisted of a participant account balance report and a schedule of investments for the Plan. BLS identified 14 participant accounts totaling \$1,315,241.73 that were missing from the Security Benefit legacy vendor statements and confirmations. This finding has been corrected in the 2018 financial statements. In 2019, Security Benefit still did not provide statements for all plan participants. See current year finding 2019-001.

Finally, Ms. Hurd reported that MetLife did not provide BLS with statements for participants holding the Flex Premium Adjustable Life Co-Plan product at MetLife. As of December 31, 2016, there were 57 participants with a Co-Plan contract with a total value of \$341,621. Additionally, MetLife did not provide BLS with statements for participants holding group contracts with TransAmerica at MetLife. As of December 31, 2017, there were 13 participants with a TransAmerica contract with a total of \$73,471. This finding has been corrected in the 2018 financial statements. MetLife provided Co-Plan information on November 11, 2019. Transamerica statements were not provided. In 2019, MetLife timely provided BLS with the statements for participants holding the Flex Premium Adjustable Life Co-Plan product and TransAmerica contracts.

529 College Plan Audit Report (2019)

Ms. Hurd reported that 529 plan assets increased by approximately \$60 million during 2019 from \$626 million at December 31, 2018 to \$686 million at December 31, 2019. This increase was primarily due to net investment income of \$94 million. Ms. Hurd also noted that contributions to the plan were approximately \$243 million, while withdrawals were \$277 million. Ms. Hurd noted that there were 5,500 participants who made withdrawals from their accounts this year. Ms. Hurd noted that the audit report also included the administrative fund held at PNC Bank.

DISCUSSION AND ACTION ITEMS

Recommendation Regarding Plan Audit Reports

The Committee discussed recommending the audit reports to the Board at the September 1, 2020 meeting.

A MOTION was made by Treasurer Davis and seconded by Mr. Snyder to recommend that the Board accept the 2019 audit reports for the plans.

MOTION ADOPTED UNANIMOUSLY

Fiduciary Training

Mr. Meyer indicated that fiduciary training will be offered by Ice Miller and solicited feedback from the Committee with respect to the slides prepared by Ice Miller. Mr. Macedo suggested changes on page 19.

Recommendation Regarding the Communication Policy

Mr. Meyer discussed with the Committee the proposed communication policy as drafted by the OST in consultation with the Deputy Attorney General. The communication policy outlines expectations of Board and Committees members during and outside of meetings. Mr. Macedo suggested a few typographical changes. Mr. Staib highlighted provisions that are designed to address “constructive meetings.” Further discussion was had around the need for Board and Committee members to have state email addresses.

[Treasurer Davis left the meeting.]

A MOTION was made by Mr. Gallagher and seconded by Mr. Macedo to recommend that the Board approve the communication policy, as revised.

MOTION ADOPTED UNANIMOUSLY

Discussion Regarding Recordkeeper RFP/Contract Extension

Mr. Meyer provided the Committee with an update on the expiration dates of the recordkeeper contracts. Mr. Meyer reported that OST has begun working with Cammack preparing the RFP for the college plan. Mr. Meyer discussed the potential need to extend the contract with Fidelity from June 30, 2021 to December 31, 2021 to have ample time to conduct an RFP and accommodate any necessary transition period. The Committee discussed the need for the extension.

**A MOTION was made by Mr. Macedo and seconded by Mr. Snyder to recommend that the Board direct OST to work with Fidelity on a contract extension through December 31, 2021 and to prepare an RFP for the College Investment Plan.
MOTION ADOPTED UNANIMOUSLY**

PUBLIC COMMENT

No member of the public was present for comment.

NEXT MEETING

The next meeting of the Committee is scheduled for November 10, 2020.

The next meeting of the Board is scheduled for December 8, 2020.

ADJOURNMENT

A MOTION was made by Mr. Macedo and seconded by Mr. Gallagher to adjourn the meeting at 11:20 a.m.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

Pete Kennedy
Chair, Audit and Governance Committee