

AUDIT AND GOVERNANCE COMMITTEE

FEBRUARY 28, 2018



KENNETH A. SIMPLER
STATE TREASURER

Proposed Upcoming Meetings Framework

Q1-2018 Meeting

- **General Overview**
Board - Committee – Division
- **Introduction to the Plans**
Structure – Financials - Budget
- **Review Audit Process**
Internal & External Auditors
- **Committee Work Discussion**
Reporting to the Board

Q2-2018 Meeting

- **General Overview**
Board - Committee – Division
- **Introduction to the Plans**
Structure – Documents
- **Review Governance Process**
Bylaws & Policies
- **Committee Work Discussion**
Reporting to the Board



Onboarding Meeting Topics & Objectives

Onboarding Meeting	Objectives
▶ General Overview Board - Committee – Division	Identify Governance Structure Discuss Committee Goals
▶ Introduction to the Plans Structure – Financials - Budget	Identify Mission of the Plans Approve Accounts/Budget
▶ Review Audit Process Internal & External Auditors	Understand Audit Process Recognize existing challenges
▶ Committee Work Discussion Reporting to the Board	Agree on initial report to the Board Define Roadmap



PLANS MANAGEMENT BOARD OVERVIEW

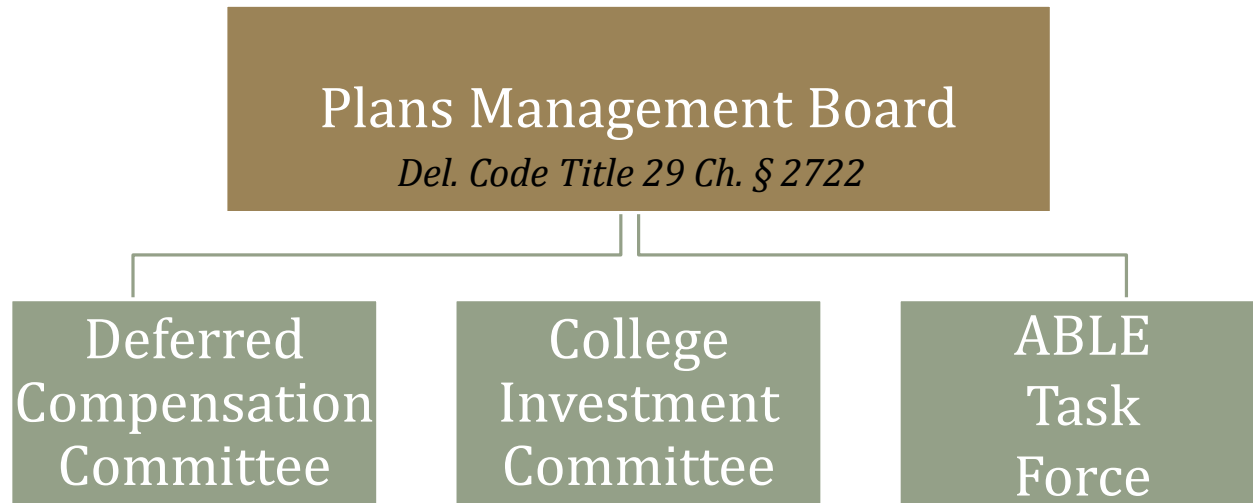


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Plans Management Board

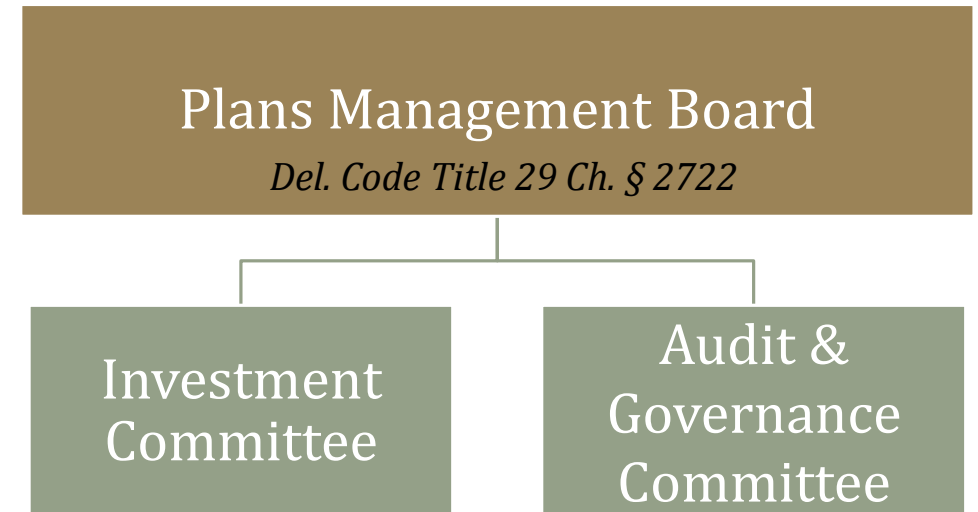
Initial Structure

Jul 16 – Jan 18



New Structure

Feb 18



Resolution No. 2018-1



Governance Principles

- Effective and capable fiduciaries
- Ethical leaders
- Open and accountable to stakeholders
- Risk intelligent and insightful in decisions
- Long-Term view of the needs of beneficiaries and participants
- Continuous learning and adaptation to changing conditions

Source: CALPERS 2017 Governance Policy



AUDIT & GOVERNANCE COMMITTEE OVERVIEW



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Terms of Reference

- Composition of the Committee
- Objectives, purpose, activities
- Powers delegated from the Board
- Mandate to make recommendations to the Board
- How the Committee reports to the Board

Audit & Governance Committee Authority

Authority to make recommendations with respect to:

- Plan Audits
- Plan Amendments
- Plan-related cyber security
- Other audit or governance matters

Source: Plans Management Board Resolution No. 2018-1



Committee Member Competencies

Governance

- Member roles/responsibilities
- Fiduciary responsibility/duties
- Conflicts of interest and ethics
- Best practices and trends
- Organizational structure

Strategic

- Program structure/delivery
- Program administration
- Financial statements
- Audit reports
- Performance evaluation



Audit & Governance Committee Key Responsibilities

- Oversight of Financial Reporting
- Fraud and Internal Control Over Financial Reporting
- Review of Annual Reports
- Risk Assessment & Oversight
- Code of Ethics & Complaint Procedures

Source: Deloitte Audit Committee Resource Guide 2015



CONTRIBUTIONS & PLAN MANAGEMENT DIVISION



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Division of Contributions and Plan Management (CPM)

- CPM oversees the design, implementation and overall administration of the State's Deferred Compensation Plans, College Investment Plan, and Achieving a Better Life Experience Program.
- CPM serves as the administrative arm for the Plans Management Board, the body legislatively charged as the sponsor of the Plans.



INTRODUCTION TO THE PLANS



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Introduction to the Plans



MISSION	Provide State of Delaware employees with a tax-advantaged voluntary savings program that promotes retirement readiness.	TBD	TBD
GOAL	Retirement Readiness	College Readiness	Life Readiness
# OF PARTICIPANTS	20,462	34,479	TBD
TARGET	State Employees	Delaware Residents	Delaware Residents
AUM 12/31/17	\$741,576,625.52 <i>Over \$300 million in 403b legacy</i>	\$680,607,128.33	\$0
APPLICABLE LAW	IRC 457b, 403b, 401a	IRC 529	IRC 529a



Overview of Plan Structures and Fee Arrangements



Unbundled		Bundled		Unbundled	
Investments		Investments		Investments	
Management Oversight	Various - American Funds, Tier II Funds Cammack Retirement Group	Management Oversight	Fidelity Investments, FMR, Strategic Advisors Fidelity Investments	Management Oversight	Various Marquette Associates
Recordkeeping		Recordkeeping		Recordkeeping	
Platform	Voya	Platform	Fidelity	Platform	Ascensus
Managed Account Service	Morningstar			Checking Account	Fifth Third Bank
Self-directed Brokerage	TD Ameritrade				
Legacy Asset	Plan With Ease				
Administrative		Administrative		Administrative	
★	Plan Expense Reimbursement Account (PERA) Forfeiture Account	★	Bank Account	★	Bank Account

★ Action Item



Administrative Fee Revenue Structure Recap & Action Items

Plan	Fee Calculation
Deferred Compensation Plans	Asset-based fee of five basis points (.05%) (not to exceed \$200.00 annually) charged to each participant; this fee pays the State of Delaware's administrative fee.
Delaware College Investment Plan	<p>For Portfolios that invest in Fidelity mutual funds, Third Party Funds, and the Bank Deposit Portfolio, the fee is a daily charge by the Trust against the assets of each Portfolio and is currently at an annual rate of .05%</p> <p>For Portfolios that invest in Fidelity index funds, the fee is a daily charge by the Trust against the assets of each Portfolio and is currently at an annual rate of .01%</p>
Delaware ABLE Plan	<p>State Administration Fee of \$5.00 per account assessed to nonresidents (ABLE Alliance/Consortium Agreement).</p> <p>Delaware has option to waive the \$5.00 per in-state residents. OST recommends due to account projections.</p>



Introduction to the Budget for the Plans



METHODS	Direct expenses are fully allocated to respective plans Shared expenses are proportionally allocated to applicable plans based on AUM		
% OF ALLOCATION	52.14%	47.86%	0.00%
PERIOD	From January 1 st through December 31 st		
VENDOR SELECTION	Mostly Competitive Procurement Process		Managed by Consortium
CATEGORIES	Personnel - Advisor – Auditors - Legal Counsel – Marketing - Other		Unknown
PROCESS	Prepared annually considering strategic plans Reviewed monthly and presented quarterly		TBD



2018 PMB Budget

USES	DEFERRED COMPENSATION UNIT	COLLEGE UNIT	ABLE UNIT	TOTAL
Personnel Expenses	\$228,008	\$209,262	\$0	\$437,270
Investment/Program Consulting Services CAMMACK RETIREMENT GROUP / TBD CONSULTANT	\$85,000 \$85,000	\$0 \$0	\$0 \$0	\$0 \$0
Compilation/Auditing Services BAKER TILLEY - PARENTE BELFIN LYONS & SCHUMAN PA / BDO USA LLP STATE AUDITOR OF ACCOUNTS at 23.77%	\$123,417 \$5,000 \$95,675 \$22,742	\$25,831 \$0 \$20,870 \$4,961	\$0 \$0 \$0 \$0	\$149,248 \$5,000 \$116,545 \$27,703
Legal Services ICE MILLER LLP	\$20,000 \$20,000	\$10,000 \$10,000	\$10,000 \$10,000	\$40,000 \$40,000
Marketing Expenses CREATIVE CONSULTING PARTNERSHIPS (e.g., DCM)	\$10,000 \$10,000 \$0	\$30,000 \$5,000 \$25,000	\$5,000 \$5,000 \$0	\$45,000 \$20,000 \$25,000
Travel CONFERENCES OTHER	\$8,000 \$8,000 \$0	\$8,000 \$8,000 \$0	\$0 \$0 \$0	\$16,000 \$16,000 \$0
Technology MORNINGS TAR, INC	\$3,500 \$3,500	\$1,675 \$1,675	\$0 \$0	\$5,175 \$5,175
Other PROFESSIONAL ORGANIZATIONS DUES (e.g., NAGDCA, ESPN, GFOA) POSTAL SERVICES BANKING FEES	\$8,000 \$6,000 \$2,000 \$0	\$10,600 \$6,000 \$1,000 \$3,600	\$1,000 \$0 \$1,000 \$0	\$19,600 \$12,000 \$4,000 \$3,600
TOTAL USES	\$485,925	\$295,368	\$16,000	\$712,293



REVIEW OF AUDITING PROCESS



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Audit Schedule and Status Summary

Plans	2014	2015	2016	2017
Deferred Compensation Plan – 457b	X	X	Scheduled for First Half 2018 (April)	Contract Awarded
Deferred Compensation Plan – 403b	X	In Process –Completing Financial Statements	In Process with Vendor Requests (April)	Contract Awarded
Deferred Compensation Plan- 401a	X	X	Scheduled for First Half 2018 (April)	Contract Awarded
Delaware College Investment Plan - 529	X	X	X	Contract Awarded
Delaware ABLE Plan – 529a	N/A	N/A	N/A	N/A

X= Audit completed and presented to the Board



Recent Past Audit Findings/Recommendations Summary

Plan	Areas of Concern / Proposed Recommendations
Deferred Compensation Plan – 457b	<ul style="list-style-type: none"> ▪ Special Catch-Up Contributions ▪ Maximum Deferral Limitations due to Special Catch-Up Provision ▪ Require Minimum Distributions Not Taken ▪ Fidelity Revenue Share Account
Deferred Compensation Plan – 403b	<ul style="list-style-type: none"> ▪ Certain Vendors Still Permitting Loans after January 1, 2009 ▪ Certain Vendors Providing Incomplete Reports ▪ Deferrals remitted to Kades Margolis were not deposited or allocated to participant accounts
Delaware College Investment Plan – 529	<ul style="list-style-type: none"> ▪ Recommendation to set up a monthly reporting notification of monthly management fee

Source: Communication Letters from Belfint Lyons Shuman (403b December 31, 2014, 457 and 401a December 31, 2015, 2014)



COMMITTEE WORK DISCUSSION



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Proposed Committee 2018 Topics

Meeting	Proposal
May 15 th	<ul style="list-style-type: none">■ Governance Review■ Presentation of Audit Reports
August 14 th	<ul style="list-style-type: none">■ Auditor Presentation■ Presentation of Internal Controls
November 13 th	<ul style="list-style-type: none">■ Internal Controls Review■ Vendor Review Process■ Cyber Security■ ABLE Audit Review



UPCOMING GOVERNANCE SESSION



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Plan Governance

Organizational Documents

6/30/16	Delaware Code	PMB Created by Delaware Code Title 29 Chapter 2722
2/2/18	Resolution 2018-1	Created Committee and Charters
TBD	By-laws	



PMB and Committees

Governing Documents

6/6/17	457(b) Plan Document	Updated January 1, 2017 and approved by PMB 6/2017
6/6/17	401(a) Match Plan Document	Updated January 1, 2017 and approved by PMB 6/2017
6/6/17	403(b) Plan Document	Updated January 1, 2017 and approved by PMB 6/2017
5/22/07	457 (b) Investment Policy Statement	Draft IPS (7/2015) from Cammack Retirement Group
5/22/07	401(a) Investment Policy Statement	Draft IPS (7/2015) from Cammack Retirement Group
5/22/07	403(b) Investment Policy Statement	Draft IPS (7/2015) from Cammack Retirement Group
3/1/17	529 Fact Kit	Fidelity in Process of 2018 Update
10/24/17	529 Investment Management Agreement	Investment Objectives Outlined in Agreement
6/1/18	529a Plan Disclosure Document	Delaware "wrapper" in development
1/25/2017	ABLE Alliance Investment Policy Statement	Illinois is the lead state of the National ABLE Alliance



Plan and Investments

Legal Documents

5/3/2016	Delaware Master Trust Agreement	457/401a
5/3/2016	Custodial Account Agreement	403(b)
10/31/2017	Management and Administrative Services Agreement	529
4/16/1998	Delaware Qualified Tuition Savings Plan Trust	Update presented 2018
12/7/2016	Master ABLE Agreement	Creation of ABLE Alliance
11/28/2017	Interstate ABLE Agreement	Delaware executed
TBD	Delaware ABLE Implementing Agreement	



Trust and Agreements



APPENDICES



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Plan Assets

Plans	Assets as of 12/31/2017
Deferred Compensation Plan – 457	\$638,794,052.11
Deferred Compensation Plan – 403b	\$80,575,752.41*
Deferred Compensation Plan- 401a	\$22,206,747.64
Delaware College Investment Plan	\$680,607,128.33
Delaware ABLE Plan	N/A

** Approximately \$300 million in 403b assets remain with legacy vendors*



Deferred Compensation Plans Investment Menu

Deferred Compensation Program
Tier One - Target Date Series (11 Age-Based Options)
American Funds 2010 Trgt Date Retire R6
American Funds 2015 Trgt Date Retire R6
American Funds 2020 Trgt Date Retire R6
American Funds 2025 Trgt Date Retire R6
American Funds 2030 Trgt Date Retire R6
American Funds 2035 Trgt Date Retire R6
American Funds 2040 Trgt Date Retire R6
American Funds 2045 Trgt Date Retire R6
American Funds 2050 Trgt Date Retire R6
American Funds 2055 Trgt Date Retire R6
American Funds 2060 Trgt Date Retire R6
Tier Two - Core Fund Lineup (14 Options)
Vanguard Federal Money Market Inv
PIMCO Total Return Instl
Vanguard Interm-Term Bond Index Adm
Templeton Global Bond R6
American Funds Washington Mutual R6
Vanguard 500 Index Admiral
T. Rowe Price Blue Chip Growth I
Vanguard Extended Market Index Adm
ClearBridge Mid Cap Growth IS
JPMorgan US Small Company R6
Lazard International Equity R6
Vanguard Total Intl Stock Index Adm
TIAA-CREF Real Estate Sec Instl
Voya Fixed Plus Account III
Tier Three- Self-Directed Brokerage
TD Ameritrade Brokerage Window



- 79.3% of plan assets invested in Tier One
- 82% of new contributions invested in Tier One

- 18.9% of plan assets invested in Tier Two
- 18% of new contributions invested in Tier Two

- \$12.9 million in assets invested in Tier 3
- 1.8% of Plan assets and 227 accounts

College Plan Investment Menu



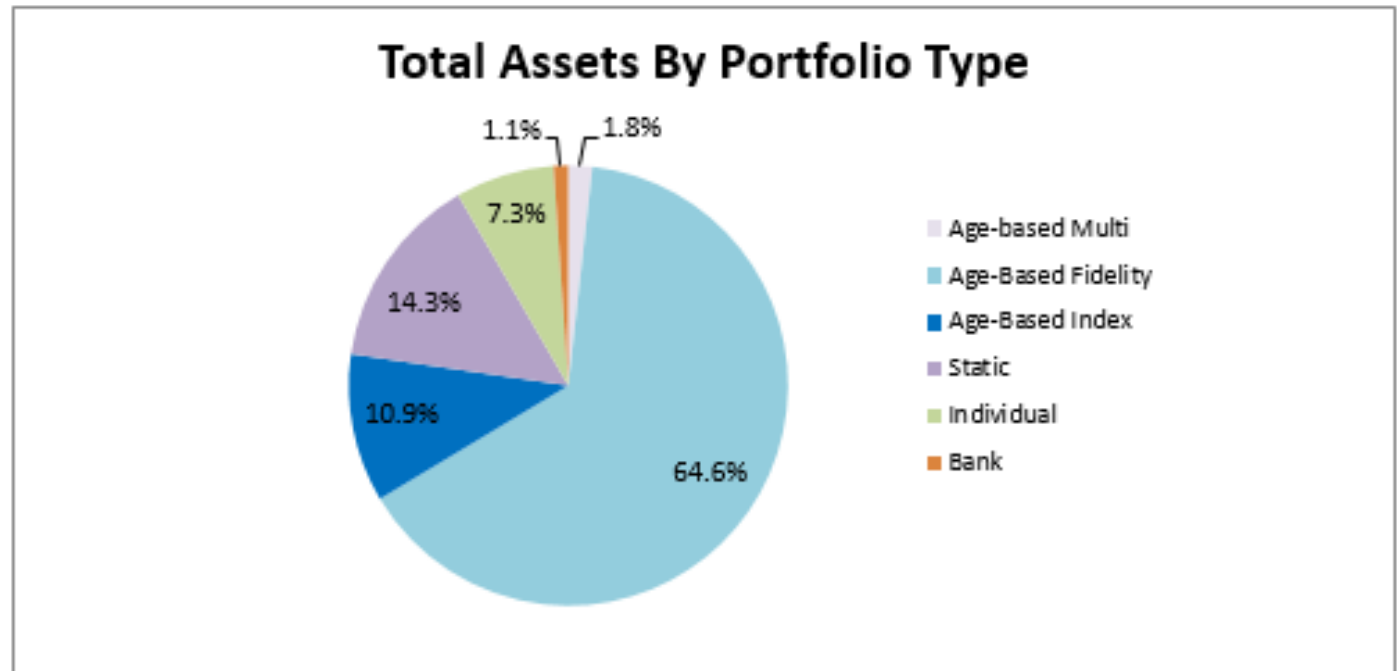
- 6 portfolio options
- 65% of plan assets invested in Age-based Fidelity

Age-Based Fidelity Funds	Static	Age-Based Fidelity Index	Individual	Age-Based Multi-firm	Bank Deposit
DE Portfolio 2036	DE Aggressive Growth	DE Portfolio 2036	DE Money Market	DE Portfolio 2036	DE Bank Deposit
DE Portfolio 2033	DE Moderate Growth	DE Portfolio 2033	DE International Index	DE Portfolio 2033	
DE Portfolio 2030	DE Conservative	DE Portfolio 2030	DE Spartan Index	DE Portfolio 2030	
DE Portfolio 2027	DE Aggressive Growth	DE Portfolio 2027	DE Total Market Index	DE Portfolio 2027	
DE Portfolio 2024	Index	DE Portfolio 2024	DE Intermediate Treasury	DE Portfolio 2024	
DE Portfolio 2021	DE Moderate Growth Index	DE Portfolio 2021	Index	DE Portfolio 2021	
DE Portfolio 2018	DE Conservative Index	DE Portfolio 2018		DE Portfolio 2018	
DE Portfolio College		DE Portfolio College		DE Portfolio College	



Delaware 529 Assets and Flows – As of September 2017

Fund Number	Fund Name	YTD Net Flows	% Net Flows	Total Assets
95520	DE Portfolio 2036 (Fidelity Funds)	\$185,697	-1.29%	\$196,483
95504	DE Portfolio 2033 (Fidelity Funds)	\$374,083	-2.58%	\$2,307,534
15212	DE Portfolio 2030 (Fidelity Funds)	\$514,303	-8.55%	\$7,761,598
15195	DE Portfolio 2027 (Fidelity Funds)	\$861,523	-5.95%	\$20,482,665
15058	DE Portfolio 2024 (Fidelity Funds)	\$1,861,005	-12.85%	\$49,902,517
15000	DE Portfolio 2021 (Fidelity Funds)	\$2,698,953	-18.64%	\$110,283,033
15016	DE Portfolio 2018 (Fidelity Funds)	(\$4,007,630)	27.68%	\$150,810,292
15008	DE Portfolio 2015 (Fidelity Funds)	\$0	0.00%	\$0
15014	DE College Port. (Fidelity Funds)	(\$21,416,888)	147.90%	\$91,479,430
15041	DE Aggressive Growth (Fid. Funds)	(\$2,206,043)	15.23%	\$48,084,971
15039	DE Moderate Growth (Fid. Funds)	(\$2,841,015)	19.82%	\$18,603,981
15044	DE Conservative (Fid. Funds)	\$464,224	-9.21%	\$7,067,063
15150	DE Money Market	\$2,993,450	-20.67%	\$10,614,332
95521	DE Portfolio 2036 (Fidelity Index)	\$209,331	-1.45%	\$220,681
95505	DE Portfolio 2033 (Fidelity Index)	\$412,175	-4.23%	\$2,706,339
15213	DE Portfolio 2030 (Fidelity Index)	\$431,136	-2.98%	\$4,811,309
15196	DE Portfolio 2027 (Fidelity Index)	\$913,723	-6.32%	\$11,786,819
15152	DE Portfolio 2024 (Fidelity Index)	\$741,910	-5.12%	\$18,628,759
15153	DE Portfolio 2021 (Fidelity Index)	\$752,094	-5.19%	\$15,359,856
15154	DE Portfolio 2018 (Fidelity Index)	\$1,331,511	-9.19%	\$13,707,440
15155	DE Portfolio 2015 (Fidelity Index)	\$0	0.00%	\$0
15159	DE College Port. (Fidelity Index)	(\$1,870,350)	12.88%	\$8,102,417
15160	DE Aggressive Growth (Fid. Index)	(\$383,983)	2.63%	\$11,914,011
15161	DE Moderate Growth (Fid. Index)	(\$566,820)	3.91%	\$8,810,615
15162	DE Conservative (Fid. Index)	\$357,231	-2.47%	\$3,842,261
15165	DE International Index	\$724,094	5.00%	\$6,356,219
15163	DE Spartan 500 Index	\$1,176,078	8.12%	\$17,319,155
15164	DE Total Market Index	(\$46,631)	0.32%	\$11,087,860
15151	DE Intermediate Treasury Index	\$266,558	-1.64%	\$9,504,256
95522	DE Portfolio 2036 (Multi-Firm)	\$65,302	-0.45%	\$68,025
95506	DE Portfolio 2033 (Multi-Firm)	\$317,625	-2.18%	\$1,277,792
15227	DE Portfolio 2030 (Multi-Firm)	\$174,894	-1.21%	\$1,716,335
15228	DE Portfolio 2027 (Multi-Firm)	\$212,469	-1.47%	\$1,754,384
15229	DE Portfolio 2024 (Multi-Firm)	\$309,565	-2.14%	\$1,628,715
15230	DE Portfolio 2021 (Multi-Firm)	\$282,785	-1.99%	\$1,915,191
15231	DE Portfolio 2018 (Multi-Firm)	\$92,857	-0.64%	\$1,204,444
15232	DE Portfolio 2015 (Multi-Firm)	\$0	0.00%	\$0
15234	DE College Portfolio (Multi-Firm)	\$1,082	-0.01%	\$1,339,702
15205	DE Bank Deposit Portfolio	(\$70,695)	0.00%	\$7,136,035
	TOTAL	(\$14,480,982)	100%	\$670,582,621



ABLE Investment Menu



DELAWARE ABLE PLAN
DEPENDABLE
 Security for the future™

- 6 portfolio options
- Checking account option with debit card feature

Investment Option	Vendor(s)	Type	Allocation
Aggressive	Vanguard index (2), Schwab index (2), iShares (1), Vanguard bond (3), BlackRock bond (1)	Stocks/Bonds	90% stocks/10% bonds
Moderately Aggressive	Vanguard index (2), Schwab index (2), iShares index (1), Vanguard bond (3), BlackRock bond (1)	Stocks/Bonds	75% stocks/25% bonds
Growth	Vanguard index (2), Schwab index (2), iShares index (1), Vanguard bond (3), BlackRock bond (1)	Stocks/Bonds	60 stocks%/40% bonds
Moderate	Vanguard index (2), Schwab index (2), iShares index (1), Vanguard bond (3), BlackRock bond (1)	Stocks/Bonds	45% stocks/55% bonds
Moderately Conservative	Vanguard index (2), Schwab index (2), iShares index (1), Vanguard bond (3), iShares bond (1), Sallie Mae savings (1)	Bonds/Stocks/Cash	45% bonds/30% stocks/25% cash
Conservative	Vanguard index (2), Schwab index (2), iShares index (1), Vanguard bond (3), iShares bond (1), Sallie Mae savings (1)	Bonds/Stocks/Cash	60% cash/30% bonds/10% stocks
Checking option	Fifth Third Bank	Cash	100% cash



Deferred Compensation - Past Audit Findings

403(b) 2014	Finding	Resolution	Status
1	The Plan Disallowed loans effective January 1 2009 but certain vendors are still issuing loans	We have added the loans to the VCP and have communicated to the vendors, again, that our plan document does not permit loans. Plan document was amended to grandfather these loans.	<i>Complete</i>
2	Certain Vendors are not providing complete reports - Kades Margolis & Metlife	The State adjusted it's confirmation letter to the above request. Since the amounts were immaterial, BLS waived a prior period adjustment and booked beginning balances by debiting investments and crediting transfers into the plan to properly reflect ending balances	<i>Complete</i>
3	Deferrals Remitted to Kades Margolis not Deposited or Allocated to Participant Accounts	In September 2015, Kades Margolis acknowledged the mistake and credited participant accounts with the contributions, as well as any applicable earnings during the period.	<i>Complete</i>
4	Deemed Distributed Loans on the Plan's Financial Statements (<i>Informational Only</i>)	The waived adjustment amount of the distributed loans is immaterial to the financial statements. BLS will continue the process of reporting the balance of the loan balance on the compilation, which includes some defaulted loan balances	<i>No action required</i>
5	IRAs Included in the Beginning Balance of Assets held at Security Benefit and other missing assets	The IRA assets were removed from the financial statements and the missing 5 contracts not provided in the compilation were added in. The amount was immaterial to the financial statements	<i>No action required</i>
6	Security Benefit Investment Detail Report Does Not Tie to the Total of the Participant Account Balance Report	Per Finding 5, once the 5 missing contracts were added back into the financial statements, the amounts tied up. Per Finding 2, the State will emphasize to all vendors the importance of providing clear and accurate reports to the compilation company	<i>No action required</i>
7	Differences between Payroll Withholding Remittances per the State and Deposits recorded by Certain Vendors	As of the date of the audit report, all differences have been fully reconciled and participant accounts have been processed accordingly	<i>Complete</i>
457(b) 2014/2015	Finding	Resolution	Status
1	Processing of the 457(b) special catch up contributions	Counsel was contacted to address the concerns and the certification forms were updated to clearly explain when a participant can elect to use the special catch up provision.	<i>Complete</i>
2	Total deferrals Larger Than the Maximum Deferral Limitation Calculated (Special Catch Up)	Over deferrals were triggered due to the special catch up contributions. Eligibility forms are submitted to a central point of contact to approve and validate eligibility.	<i>Monitoring</i>
3	Required Minimum Distributions	Resolved with transition to new record-keeper in 2016	<i>Complete</i>



College Investment- Audit Recommendations

Issue	Level of Deficiency	Comments
Monthly review of State Fees collected	Suggestion	Based on review of Fidelity’s processes surrounding management fees, we noted that Fidelity sends monthly notifications to other State Plans’ informing them of the monthly management fees collected. We suggest that the calculation of the monthly State Fees be incorporated into monthly discussions between the Director, Contributions and Plans Management and the Client Relationship Manager at Fidelity. This discussion would help ensure the accuracy of the fees collected and recorded.
Participant Hotline Number	Suggestion	During review of Fidelity’s FactKit, BDO noted that the State’ participants are not provided with the State of Delaware’s contact information in case they were dissatisfied with the service provided by Fidelity. We suggest that the Plan’s contact information be included with informational items distributed by Fidelity on behalf of the State of Delaware as it will help report fraud, errors, or general dissatisfaction with the Plan’s administrator.

