



**MINUTES FROM MEETING OF THE  
AUDIT & GOVERNANCE COMMITTEE OF THE  
PLANS MANAGEMENT BOARD  
FEBRUARY 28, 2018**

The Audit & Governance Committee (the “Committee”) of the Plans Management Board (the “Board”) held a meeting on February 28, 2018 at 2:00 p.m. in the main conference room of the Office of the State Treasurer (“OST”) located at 820 Silver Lake Blvd., Suite 100, Dover, Delaware.

Committee Members Represented or in Attendance:

Mr. Charles Campbell-King, Audit and Governance Committee Chair  
Ms. Nora Gonzalez, Deputy State Treasurer, OST (on behalf of The Honorable Kenneth Simpler, State Treasurer)  
Mr. Ralph Cetrulo, Member At-Large  
Mr. Gerard Gallagher, Member At-Large  
Mr. Timothy J. Snyder, Member At-Large

Committee Members Not in Attendance

Val Watson, Committee Member

Others in Attendance:

Mr. John Macedo, prospective Committee Member  
Mr. Peter Kennedy, prospective Committee Member  
Mr. Jason Staib, Deputy Attorney General, Department of Justice  
Ms. Tammy Smith, Sr. Audit Manager, Office of the Auditor of Accounts (AOA)  
Ms. Andrena Burd, Audit Manager, AOA  
Mr. Daniel Madrid, Director of Planning and Performance Management, OST  
Mr. John Meyer, Director of Contributions and Plan Management, OST  
Mr. Daniel Kimmel, Promotion and Outreach Program Manager, OST  
Mr. Mike Green, Investments and Operations Program Manager, OST  
Mr. Omar Masood, Policy Advisor, OST  
Ms. Marie Villeneuve, Consultant, Cammack Retirement Group (Cammack)  
Ms. Maria Hurd, CPA Director and Shareholder, Belfint Lyons & Shuman (BLS)

**CALLED TO ORDER**

The meeting was called to order at 2:00 p.m.

**INTRODUCTIONS**

Ms. Gonzalez welcomed the new members of the Committee and introduced Mr. Macedo and Mr. Kennedy as prospective members. Mr. Meyer introduced Mr. Campbell-King, the Committee Chair, and inquired about the appointment of a Committee Vice-Chair. The issue was tabled and will be revisited at a later date.

Mr. Meyer indicated that State Treasurer Simpler had named Deputy State Treasurer Gonzalez as his designee to the Committee and asked for the members to approve the designation.

**A MOTION was made by Mr. Campbell-King and seconded by Mr. Snyder to accept Ms. Gonzalez as the State Treasurer’s designee to the Committee.**

**MOTION ADOPTED UNANIMOUSLY**

Mr. Meyer indicated that the following subjects would be potential areas of focus for the first two quarters of 2018: i) Board/Committee structures; (ii) audit and governance issues processes; and (iii) financials and budgets for the plans.

## **PRESENTATIONS**

### *Introduction to the Plans and Committee Goals for 2018*

Mr. Meyer provided background information concerning the Board and its committees, OST’s Plans Management Division and the plans under the Board’s purview - the 457, 403(b), and 401(a) deferred compensation plans, the 529 college savings plan, and the 529(a) “ABLE” plan. Mr. Meyer indicated that the Committee’s mandate includes all matters related to plan audits, amendments, and cybersecurity issues, and all other matters that may be referred by the Board.

Mr. Meyer reviewed the mission statements of and strategic goals for the plans. He indicated that the Board worked with OST and Voya on the strategic goals for the deferred compensation plans last year. Mr. Kimmel elaborated on the history of the deferred compensation plans, provided background on the 2009 and 2016 consolidation processes, and described 403(b) legacy assets and the consolidation campaign efforts presently underway. Mr. Meyer indicated that OST is working with Fidelity to complete the strategic plan for the college plan. Mr. Meyer then explained the plan’s investment and fee structures.

### *Plan Expense Reallocation Account*

Mr. Meyer provided background information concerning the Plan Expense Reallocation Account (“PERA”) for the deferred compensation plans. He indicated that the accounts were established as part of the conversion to Voya and could be used to reallocate unused State administrative fees back to participants. Mr. Meyer indicated that \$19,000 of fees remain in the 457(b) PERA net of CY18 expenses. Cammack, the Board’s consultant for the deferred compensation plans, recommended that any reallocation be done on a pro-rata basis as outlined in Cammack’s memorandum of January 25, 2018. Mr. Macedo indicated that the ideal way to handle these fees would be pro-rata based on actual fees paid by each participant, rather than their respective account balances. If that option was not feasible, he suggested imposing a cap to prevent participants from receiving more than their fair share under a pro-rata distribution. Ms. Hurd expressed agreement with the cap concept. Ms. Villeneuve was unable to provide specifics concerning Voya’s ability to return fees under Mr. Macedo’s suggested approach. The Committee tabled the discussion and directed OST to complete additional research for consideration at the next meeting.

## **DISCUSSIONS AND ACTION ITEMS**

### *Delaware Qualified Tuition Savings Trust*

Mr. Meyer outlined three proposed changes to the 529 trust document. The first change would conform the trust document to the recent federal tax bill as it relates to K-12 tuition expenses. The second change would create an administrative fund to hold the State’s administrative fees inside the plan, and from which 529 plan expenses would be paid. The final change would create an endowment fund to provide college scholarships to

underprivileged Delaware students. Mr. Meyer noted that the State’s 529 fees, including \$1.7 million of “legacy” fees, are held in an outside bank account with PNC Financial Services Group (“PNC”). Mr. Meyer expressed OST’s desire to transfer the fees to a trust brokerage account with Fidelity Investments (“Fidelity”).

Mr. Campbell-King inquired about the transfer of the fees from PNC to Fidelity. Mr. Meyer explained that the contemplated structure would bring the 529 plan in line with the deferred compensation plans, which hold State fees “inside” the plans.

The Committee discussed issues related to the K-12 tuition expenses. Mr. Macedo noted, and other Committee members agreed, that the mission of the 529 plan - college readiness - was at odds with the prospect of parents withdrawing 529 savings to fund K-12 tuition. Mr. Campbell-King and Mr. Macedo asked whether the Board was required to implement the K-12 changes in the State’s 529 plan, due to the supremacy of federal law. Mr. Staib indicated that he would need to research the issue before providing a response.

The Committee also expressed concerns with the creation of an endowment account. Mr. Macedo inquired whether the use of State administrative fees to fund individual scholarships would be consistent with mission of the 529 plan and the Board’s fiduciary duties.

Discussion of the K-12 and endowment account issues was tabled to give OST time to gather more information.

Ms. Gonzalez asked if the Committee would vote on setting up the administrative fund and transferring 529 administrative fees to the Fidelity trust account. Ms. Gonzalez noted that the administrative fund and related trust account were needed to properly account for 529 plan assets.

**A MOTION was made by Mr. Campbell-King and seconded by Mr. Snyder to recommend (a) the modification of the Delaware Qualified Tuition Savings Trust to establish an administrative fund and (b) the transfer of funds from the PNC bank account to a trust account held at Fidelity.**

**MOTION ADOPTED UNANIMOUSLY**

*ABLE Administration Fees Recommendation*

Mr. Meyer provided an overview of the ABLE fee structure. He indicated that, while the National ABLE Alliance requires a \$5 annual fee to be assessed on all out-of-state accounts, members have the option of waiving the fee for in-state residents. Mr. Meyer stated that, due to the small number of anticipated ABLE accounts, assessing the fee would be an administrative burden and would not generate significant revenue.

**A MOTION was made by Mr. Campbell-King and seconded by Mr. Snyder to recommend waiving the administrative fee charged by the National ABLE Alliance to Delaware residents.**

**MOTION ADOPTED UNANIMOUSLY**

*House Bill 148 Update*

Mr. Masood provided an update on H.B. 148, the Delaware bill to create tax deductions for college savings and ABLE plan contributions. He indicated the bill would create two new deductions from taxable income up to \$2,500 for contributions to a 529 or ABLE plan. Under the bill, a taxpayer would be eligible for the deduction regardless of whether they contributed to a plan sponsored by the State of Delaware or another state.

*2018 Budget Presentation*

Mr. Meyer presented the proposed budget for CY18. He indicated revenue sources and itemized expenses were consistent with those of prior years. The Committee discussed the budget. Mr. Meyer reviewed the state administration fee rate for each of the plans and provided an overview of the personnel and administrative expenses within the budget.

**A MOTION was made by Mr. Campbell-King and seconded by Mr. Cetrulo to recommend the 2018 Budget for approval by the Board.**

**MOTION ADOPTED UNANIMOUSLY**

#### *Plan Audits*

Mr. Meyer initiated a discussion concerning the plan audits process and the status of prior-year audits.

Ms. Smith explained that the Board is required to work with AOA to arrange for an annual financial audit of each plan. AOA selects the auditor through an RFP process. AOA has a team to score the proposals, and the State Auditor approves the successful vendor. Ms. Smith reported that a contract with the successful auditing firm (for the deferred compensation and college savings plans) would be signed before the end of the month. The Board is responsible for the payment of all AOA and auditor fees.

Ms. Hurd discussed with the Committee the audit objectives and procedures (for general matters, internal controls, and compliance), and outlined management responsibilities. She shared her experiences working with OST on plan audits.

Mr. Meyer indicated that the ABLE audit will be performed by vendor for the National ABLE Alliance and will be available for review in the third quarter of 2018. Mr. Macedo inquired about the ABLE audit and the investment options in each member's plan. Mr. Meyer explained that the audit is performed on the ABLE master trust and indicated that the investment offerings approved by the Alliance are the same for each member plan.

Mr. Snyder asked if the audits are prepared on a calendar or fiscal year basis. Ms. Hurd indicated that audits are completed for calendar years. Ms. Gonzalez noted that this is one reason why the budgets for the plans are now based on calendar years.

#### **NEW BUSINESS**

No new business was discussed.

#### **PUBLIC COMMENTS**

No members of the public attended the meeting.

#### **NEXT MEETING**

The next meeting is scheduled for May 15, 2018.

#### **ADJOURNMENT**

**A MOTION was made by Mr. Snyder and seconded by Mr. Campbell-King to adjourn the meeting at 4:30 p.m.**

**MOTION ADOPTED UNANIMOUSLY**

Respectfully submitted,

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Charles Campbell-King,  
Chair, Audit & Governance Committee