



**MINUTES FROM THE AUDIT AND GOVERNANCE COMMITTEE
OF THE PLANS MANAGEMENT BOARD
AUGUST 13, 2019**

A meeting of the Audit and Governance Committee (the "Committee") of the Plans Management Board (the "Board") was held August 13, 2019, 10:00 a.m., in the Dupont Room, Buena Vista Conference Center, New Castle, Delaware.

Committee Members Represented or in Attendance:

Mr. Peter Kennedy, Committee Member
Mr. John Macedo, Committee Member
Mr. Timothy J. Snyder, Committee Member
The Honorable Colleen C. Davis, State Treasurer

Committee Members Not Represented or in Attendance:

Mr. Ralph Cetrulo, Committee Chair
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 Treasury ("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
Ms. Laura Horsey, Senior Audit Manager, Office of the Auditor of Accounts ("AOA")
Ms. Liz Vasilikos, Deputy Auditor, AOA
Ms. Maria Hurd, Director, Belfint, Lyons and Shuman

CALLED TO ORDER

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

APPROVAL OF MINUTES

A MOTION was made by Treasurer Davis and seconded by Mr. John Macedo to approve minutes from the Committee meeting on May 14, 2019.

MOTION ADOPTED UNANIMOUSLY

PRESENTATIONS

401(a) Audit Report (2017-2018)

Ms. Hurd provided the Committee with the audit report for 2017 and 2018 for the 401(a) plan. Ms. Hurd stated that in plan years 2017 and 2018 there was a \$2 million dollar decrease in assets from \$22.2 million to \$20.2 million, respectively. Ms. Hurd attributed the decrease in assets to the Q4 decrease in the market. Between 2017 and 2018, the 401(a) plan saw a decline in accounts with balances from 10,102 to 9,706. Ms. Hurd noted that there was also a decline in the average account balance from \$2,198 to \$2,083. The average distribution was \$1,600 per person for both 2017 and 2018. There are 2,806 terminated accounts with balances under \$5,000, which equals 23% of the plan's assets. There are 5,079 active accounts with \$13.7 million in assets that range from \$1 to \$5,000 and cannot be cashed out. Finally, there are 3,600 accounts with \$1.8 million in assets with balances between \$100 and \$999.

Ms. Hurd stated that administrative expenses decreased tremendously between years 2016-2018. Ms. Hurd attributed the decrease to a reduction in fees due to the transition from Fidelity to Voya and a reduction in Voya's recordkeeper fees due to a failure to achieve performance criteria in 2017.

Ms. Hurd identified one audit finding regarding an uncashed check for a required minimum distribution that was returned due to a bad address. Ms. Hurd recommended that OST work with Voya to procure participant locator services. The Committee discussed the feasibility of the services from a cost-benefit standpoint.

457(b) Audit Report (2017-2018)

Ms. Hurd reported that the 457(b) plan experienced a \$25 million decrease in assets from 2017 to 2018. The decrease is attributed to market trends, as well as participant distributions being more than contributions. The number of accounts with balances for 2018 increased from 2017 by 117 accounts. The average account balance of \$37,753 was \$1,840 less in 2018 than in 2017 due to the market returns. Ms. Hurd stated that the number of persons contributing to the 457(b) plan was 10,746, with an average deferral amount of \$3,402 in 2018. The number of people actively contributing went down while the average deferral into the plan increased. The average salary for those contributing increased this year by 3.5% to \$63,770. Ms. Hurd stated there was an increase in 457(b) plan distributions from 2017 to 2018, with an average distribution of \$24,151. Administrative expenses went down, which was highly market driven. The majority of plan assets are concentrated in tier one - the American Funds Target Date funds.

Ms. Hurd reviewed several payroll related recommendations from the audit and suggested that the Committee may want to consider them.

529 College Plan Audit Report (2017-2018)

Ms. Hurd reported that the College Savings Plan Trust assets decreased by \$56 million dollars during the reporting period. Ms. Hurd attributed the decrease to the market downturn in fourth quarter of 2018. Ms. Hurd also noted that contributions to the plan were approximately \$90 million, while withdrawals were \$120 million (due to the large percentage of beneficiaries at or approaching college age). Ms. Hurd noted that the audit report also included the administrative fund account held at PNC Bank.

Finally, Ms. Hurd noted that there were 5,000 participants who made withdrawals from their accounts this year, at an average of \$24,260 per withdrawal.

Draft 403(b) Audit Presentation (2015-2016)

Ms. Hurd discussed the history and structure of the 403(b) plan. Ms. Hurd discussed draft audit reports for comparative plan years 2015-2016 and informed the Committee that her firm intends to present final audit reports by the end of the year for audit years 2016, 2017, and 2018.

DISCUSSION AND ACTION ITEMS

Recommendation Regarding Plan Audit Reports

The Committee discussed the audit reports for the 457(b), 401(a) and 529 plans. The Committee requested that OST follow up on action items as recommended in the reports and report back to the Committee.

The Committee noted that AOA will publish the reports to General Assembly and other interested parties after Board approval.

A MOTION was made by Treasurer Davis and seconded by Mr. Macedo to recommend that the Board accept the audit reports for the 457(b), 401(a) and 529 plans.

MOTION ADOPTED UNANIMOUSLY

Recommendation Regarding Reimbursement Policy

The Committee reviewed the proposed reimbursement policy drafted by OST. 1. The policy governs the reimbursement of travel-related expenses when attending meetings, out of state travel, and education conferences.

A MOTION was made by Mr. Macedo and seconded by Treasurer Davis to recommend that the Board approve the Reimbursement Policy.

MOTION ADOPTED UNANIMOUSLY

Recommendation Regarding Indemnification Policy

The Committee discussed the indemnification policy drafted by OST. Mr. Meyer stated the policy was vetted by the Delaware Department of Justice.

A MOTION was made by Mr. Macedo and seconded by Treasurer Davis to recommend that the Board approve the Indemnification Policy.

MOTION ADOPTED UNANIMOUSLY

403b Plan Amendment—Removal of Six-month Suspension of Contributions Provision

The Committee discussed a proposed plan amendment relating to the removal of the suspension of contributions for hardship provision in the 403(b) plan document. The Committee discussed the implementation date (January 1, 2020) and asked whether the practice had been implemented. Mr. Kimmel confirmed that the practice was put in place as of January 1, 2019. The Committee requested that the amendment have an effective date of January 1, 2019.

Automatic Cash Outs for Terminated Accounts Below \$1,000

Mr. Meyer stated the 403(b) plan provides for small balance cash outs, but noted that the 457 and 401(a) plans do not address small balance cash outs. The Committee discussed the proposed plan amendment drafted by Ice Miller. Questions were raised regarding the employee eligibility language in the proposed amendment. The Committee tabled the amendment for a future meeting.

PUBLIC COMMENT

No member of the public was present for comment.

NEXT MEETING

The next meeting of the Committee is scheduled for November 12, 2019.
The next meeting of the Board is scheduled for September 4, 2019.

ADJOURNMENT

A MOTION was made by Treasurer Davis and seconded by Mr. Macedo to adjourn the meeting at 11:46 a.m.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

Ralph Cetrulo
Chair for the Audit and Governance Committee