



**MINUTES OF THE AUDIT AND GOVERNANCE COMMITTEE
OF THE PLANS MANAGEMENT BOARD
August 8, 2023**

A virtual meeting of the Audit and Governance Committee (the “Committee”) of the Plans Management Board (the “Board”) was held on August 8, 2023, at 10:00 a.m. Committee members and 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
Mr. Timothy J. Snyder
The Honorable Colleen C. Davis, State Treasurer

Others in Attendance:

Mr. Jordan Seemans, Deputy State Treasurer
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
Mrs. Deborah Bradl, Executive Assistant, Contributions and Plan Management, OST
Mr. Earle Allen, CAPTRUST
Mr. Jeffrey Kowalczyk, Partner, Barbacane, Thornton & Company, LLP
Mr. Miles Lamons, Intern, OST

CALLED TO ORDER

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

APPROVAL OF MINUTES

A MOTION was made by Mr. Macedo and seconded by Treasurer Davis to approve minutes from the Committee meeting on May 9, 2023.

MOTION ADOPTED UNANIMOUSLY

AUDIT PRESENTATIONS

401(a) Audit Presentation (2022)

Mr. Kowalczyk presented the 401(a) Match Plan audit report for plan year 2022, which included an unmodified audit opinion on the financial statements for the 401(a) Plan. As of December 31, 2022, the Match Plan had a fiduciary net position of approximately \$21.3 million, which was a decrease from approximately \$26.6 million as of December 31, 2021. He stated that much of the decrease was due to net depreciation of investments being greater than interest and dividends during 2022. During the year ended December 31, 2022, distributions paid to participants were approximately \$1.4 million. Administrative expenses were approximately \$60,000 for the year ended December 31, 2022, versus

approximately \$79,000 for year ended December 31, 2021. Finally, Mr. Kowalczyk identified no material weaknesses or significant deficiencies.

457(b) Match Plan Audit Report (2022)

Mr. Kowalczyk presented the 457(b) audit report for plan year 2022, which included an unmodified audit opinion on the financials. As of December 31, 2022, the 457(b) plan had a fiduciary net position of approximately \$792.4 million, a decrease of approximately \$155.9 million compared to December 31, 2021. Net investment income for the year ending December 31, 2022, was approximately \$147.8 million, an increase over the approximately \$116.7 million for the year ending December 31, 2021. Participant contributions increased from approximately \$43.8 million for the year ending December 31, 2021, to approximately \$45.1 million for the year ending December 31, 2022. Mr. Kowalczyk stated that total deductions, which includes benefits paid to participants and administrative expenses, decreased slightly from approximately \$56.7 million for year ending December 31, 2021, to approximately \$56.2 million for year ending December 31, 2022. Administrative expenses decreased slightly from approximately \$1.6 million for the year ending December 31, 2021, to approximately \$1.3 million for the year ending December 31, 2022. The decrease in administrative expenses was due primarily to changes in the service agreements and how fees have been paid in the past compared to the current year the level of assets held by the Plan, and the number and dollar amount of transactions charged directly to participant accounts.

529 College Investment Trust Audit Report (2022)

Mr. Kowalczyk presented the Delaware Qualified Tuition Savings Plan Trust audit report for plan year 2022. He stated that the fiduciary net position decreased from approximately \$749 million as of December 31, 2021, to approximately \$614 million as of December 31, 2022, due primarily to net investment losses of approximately \$93 million. Mr. Kowalczyk stated that receivables and liabilities were approximately \$5.7 and approximately \$5.9 million, respectively, as of December 31, 2022. Further, total additions for the year ending December 31, 2022, were approximately \$217 million, an increase from approximately \$119 million for the year ending December 31, 2021. Mr. Kowalczyk noted that redemptions were approximately \$258 million for the year ending December 31, 2022, an increase from approximately \$153 million for the year ending December 31, 2021. The increase was due primarily to the transfer of assets between funds due to the closing of the 2021 target-date funds. Fluctuations are otherwise due to changes in the number of participants and beneficiaries receiving eligible distributions, as well as the size of account balances. There were approximately 6,100, 6,000, and 5,300 individuals who received a distribution from the Trust during the years ending December 31, 2022, 2021 and 2020, respectively. The Committee requested a comparative report for the 529 Trust. Mr. Kowalczyk stated that he will revise and reissue the report to the Committee.

The Committee asked if the draft audit report and financial highlights for the 403(b) plan will be forthcoming. Mr. Kowalczyk confirmed that his firm was actively working with several of the legacy 403(b) providers to obtain plan information, and that his firm intends to present the report at the November Committee meeting.

ACTION ITEMS

Discussion and Potential Vote on Plan Audits

The Committee agreed to defer a vote on recommending approval of the audit reports until the November 2023 Committee meeting, at which point all the 2022 plan audit reports will have been finalized.

Discussion and Potential Vote on Cybersecurity Policy

Mr. Meyer updated the Committee regarding the progress made on the cybersecurity policy. The Committee discussed the current draft of the cybersecurity policy and suggested revisions to the Scope section to recognize that the Committee, OST, and the Board have limited ability to negotiate with certain vendors, e.g., 403(b) legacy vendors, and external audit firms. The Committee also noted the need for OST to discuss with DTI whether requiring vendors' adherence to NIST standards, rather than to both NIST and DTI Delaware standards, would be acceptable to DTI. No vote was taken due to the outstanding issues discussed in this paragraph.

UPDATES

Update on SECURE Act 2.0

Mr. Meyer stated that Ice Miller encouraged OST to continue to wait for additional guidance on the SECURE ACT 2.0 changes, including the birth and adoption distribution and the Roth catch-up provision.

Legislative Updates

Mr. Meyer provided legislative updates to the Committee. He stated that casual/seasonal employees will be eligible for the 457(b) plan starting in January 2024. Mr. Seemans noted that this bill will be signed by the Governor within the next week. Mr. Meyer further stated that legislation to reinstitute the match for the 401(a) plan did not advance this year and indicated that OST is exploring options for auto enrollment for the deferred compensation plans for new state employees. Finally, Mr. Meyer stated that the Office of the Auditor of Accounts ("OAOA") has provided OST with a draft Request for Proposals for an external audit firm and a draft Memorandum of Understanding ("MOU") for years 2024 and 2025. The new MOU is similar to the MOU approved last year by the Board.

EXECUTIVE SESSION

No executive session was held.

PUBLIC COMMENT

No member of the public was available for comment.

NEXT MEETING

The next meeting of the Committee is scheduled for November 7, 2023.

The next meeting of the Board is scheduled for September 12, 2023.

ADJOURNMENT

Meeting was adjourned by the Chair at 11:16 a.m.

Respectfully submitted,

Pete Kennedy, Chair for the Audit and Governance Committee