



STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
MCARDLE BUILDING
860 SILVER LAKE BLVD., SUITE 1
DOVER, DE 19904-2402

When Calling Long Distance
Toll-Free Number 1-800-722-7300
E-mail: pensionoffice@delaware.gov

Telephone (302) 739-4208
FAX # (302) 739-6129
www.delawarepensions.com

BOARD OF PENSION TRUSTEES
AUDIT COMMITTEE
PUBLIC MINUTES OF NOVEMBER 4, 2022

The meeting of the Audit Committee was called to order by Mark Finfrock, Chair, at 9:01 a.m., via video and teleconferencing.

Committee Members Present

Mark Finfrock
Kathy White
Stephen Ritchie
Harold Stafford
Tom Vermeer
Joseph Seibert

Others Present

Joanna Adams, Pension Office
Stephenie Tatman, Pension Office
Khairat Makanjuola, Pension Office
Vicki Schultes, Pension Office
Ryan Connell, Deputy Attorney General
William O'Brien, Deputy Attorney General

Victoria Calibey, BDO USA, LLP
Kenya James, BDO USA, LLP
Keith Hammond, BDO USA, LLP
Jim Doyle, BDO USA, LLP
Mike Devitis, KPMG
James Pollock, KPMG
Sophia Smith, Windmark Investment Partners

1. OPENING COMMENTS:

M. Finfrock welcomed everyone to the meeting, then followed with a roll call. Ms. Adams introduced Khairat Makanjuola, former Office of Pensions Cash and Debt Manager and newly promoted Internal Audit Director. Ms. Makanjuola shared her professional background and is excited to take on her new role with the Delaware Public Employees' Retirement System (DPERS). Everyone congratulated Ms. Makanjuola on her promotion.

Ms. Adams then introduced Deputy Attorney General William O'Brien, who was hired to fill the role vacated by Deputy Attorney General Ann Marie Johnson. Mr. O'Brien also shared his professional background. The Audit Committee expressed their enthusiasm for working with Ms. Makanjuola and Mr. O'Brien moving forward.

2. APPROVAL OF THE MINUTES:

The Audit Committee reviewed the Public Minutes of the July 15, 2022, meeting. Several minor technical corrections were suggested.

MOTION made by H. Stafford and seconded by S. Ritchie to approve the Public Minutes of the July 15, 2022 meeting with technical corrections as noted.

MOTION ADOPTED UNANIMOUSLY

The Audit Committee reviewed the Executive Minutes of the July 15, 2022 meeting during Executive Session. One minor technical correction was suggested.

MOTION made by K. White and seconded by H. Stafford to approve the Executive Minutes of the July 15, 2022 meeting with technical corrections as noted.

MOTION ADOPTED UNANIMOUSLY

MOTION made by K. White and seconded by H. Stafford to move into an Executive Session for the purpose of discussing confidential financial information, sensitive commercial information, proprietary business information, internal audit reports, and preliminary external audit reports.

MOTION ADOPTED UNANIMOUSLY

The Audit Committee then moved into Executive Session to discuss confidential financial information, sensitive commercial information, proprietary business information, internal audit reports, and preliminary external audit reports.

MOTION made by H. Stafford and seconded by K. White to move into an Executive Session, with only the Audit Committee, Office of Pensions staff, and the legal team participating. The second Executive Session was also called for the purpose of discussing confidential financial information, sensitive commercial information, proprietary business information, internal audit reports, and preliminary external audit reports. All meeting participants from BDO and KPMG left the meeting at 10:46 to accommodate this motion.

MOTION ADOPTED UNANIMOUSLY

MOTION made by K. White and seconded by T. Vermeer to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

3. EXTERNAL AUDIT REPORT

FISCAL YEAR 2022 ANNUAL REPORT:

The Fiscal Year 2022 External Audit and GASB 68/75 Statements were reviewed in Executive Session.

MOTION made by T. Vermeer and seconded by H. Stafford to recommend that the Board of Pension Trustees, upon its review during the November 18, 2022 Board of Pension Trustees meeting, approve the FY22 Annual Audit Report.

MOTION ADOPTED UNANIMOUSLY

MOTION made by H. Stafford and seconded by K. White to extend the annual external auditors' contract for the remaining two years as noted in the original contract terms.

MOTION ADOPTED UNANIMOUSLY

4. INTERNAL AUDIT REPORT

INTERNAL AUDIT PLAN STATUS UPDATE:

There was nothing to report.

5. PENSION ADMINISTRATOR'S UPDATE

POSITIONS UPDATE:

Ms. Adams shared that the Current Vacant Positions chart revealed a flurry of office activity, with additional changes to report since the information was provided to the Audit Committee. Three limited-term positions - two Human Resource (HR) Analyst Is and an HRIS Administrator – will be used to perform the day-to-day responsibilities of the respective positions during the Enterprise Resource Planning (ERP) modernization project. The HRIS Administrator is the functional manager, and a Request to Hire has been submitted to the Department of Human Resources (DHR) for the selected candidate. The Office of Pensions' current automated HR/payroll system (CRIS) was implemented in 1999 and is being modernized statewide because it will no longer be supported by its parent company (Oracle) after 2030. The office staff that is currently in the same roles as the limited-term dual incumbency positions will move to the modernization project until its completion.

The Office recently filled three HR Analyst I positions with internal candidates, so their onboarding and training will be less challenging. However, this also creates three additional vacancies within the office.

Three new positions were awarded to the Office of Pensions in the FY23 Budget; they are classified and ready for posting. M. Finrock asked if there was any plan to grow Office staff beyond these three positions. Ms. Adams confirmed that additional growth is needed and gave kudos to Office of Management and Budget (OMB) Director Cerron Cade, and Deputy Director Courtney Stewart. OMB leadership recognizes that Office of Pensions staffing has not grown in proportion to our fund size and membership and is very supportive of the Office. Office staff continues to focus on the backlog of vested applications while receiving new applications every day. Two additional positions are included in the FY24 Budget.

The HR Supervisor position is now moving forward with the hiring process.

Lastly, Ms. Adams confirmed for J. Seibert that the office will be posting for the Cash and Debt Manager position recently vacated by K. Makanjuola's internal promotion to Internal Audit Director.

ACTUARIAL UPDATE:

Ms. Adams presented the Fiscal Year 2022 Actuarial Valuation for the plans in the system. The following topics were discussed:

- Historical review/risk metrics – State Employees' Plan
- Changes since the 2021 valuation

- Principal 6/30/2022 valuation results
 - State Employees' details
 - Contribution results for all Plans
- Stress testing
- GASB 67/68

The following employer contribution rates for FY24 were presented to the Board by Cheiron, Inc.:

- State Employees' 11.71%
- State Judicial 11.13%
- State Police 27.86%
- County/Municipal General 5.59%
- County/Municipal P & F 12.74%
- Volunteer Fire \$603.08 per member*
- Diamond State Port \$0.00

* Note: Annual billing is done in January and February each year. This rate will go up significantly in 2023 because their benefit doubled.

Ms. Adams provided an overview of the actuarial valuation of the Other Post-Employment Benefits (OPEB) Trust:

- Principal 6/30/2022 valuation results
- GASB 74/75
- Funding Policy

The discount rate used to calculate the present value of the total OPEB liability for the OPEB Trust financial statement disclosure utilizes a 20-year municipal bond index rate. Based on market conditions, that rate changed from 2.16% to 3.54%, decreasing the total OPEB liability by \$2.2 billion. This decrease resulted in an improvement of the funded status of the OPEB Trust, despite a decrease in the OPEB Trust's assets. Additional funding will be granted through the budget process to the OPEB Fund. Other plan changes likely to impact retirees are under consideration by the State Employee Benefit Committee (SEBC).

LEGISLATIVE UPDATE:

Ms. Adams provided an overview of recent legislative activity:

- SENATE SUBSTITUTE 1 FOR SENATE BILL 14 AS AMENDED BY SENATE AMENDMENT 1, SENATE AMENDMENT 3, AND HOUSE AMENDMENT 1 – This bill mandates that post-retirement increases (PRIs) for retirees who have been retired at least 20 years from the date of the increase receive more than those retirees who have been retired less than 20 years. The bill also prevents substantively automatic PRIs which refers to PRIs paid regularly or in a pattern such as biannually or every 3 years. This was signed by the Governor on October 26, 2022.

OTHER NEWS:

For the last five months, the Office of Pensions' Health Benefits team has been working feverishly with the Statewide Benefits Office (SBO). In the spring of 2022, the State Employees Benefits Committee (SEBC) voted to approve the transition of the Special Medicfill option to a Medicare Advantage Plan, beginning January 1, 2023. The Office of Pensions was moving forward with great strides in preparation for this changeover and had conducted multiple education sessions throughout the state to help educate our retirees and explain the coverage changes. Several retirees filed a lawsuit to stop this transition, and a stay was granted on October 19th. A hearing has been

scheduled for November 28, 2022. In the interim, the Office of Pensions has begun the process of undoing the system changes that were made in preparation for the transition. This situation has been challenging at best for the staff, while Office of Pensions employees take the brunt of the concerns, phone calls, and questions from the retirees because Office of Pensions staff are the retirees' primary "go-to" option.

6. DEPUTY ATTORNEY GENERAL REPORT

There was nothing to report.

7. MEETING DATES FOR 2023:

The Audit Committee meeting dates for 2023 were reviewed. M. Finfrock requested consideration to change the November 3, 2023 meeting to November 8, 2023, to allow for adequate time for the Audit Committee to complete the external audit and related documents. This consideration was approved unanimously.

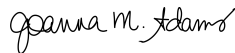
The next Audit Committee meeting is scheduled for February 10, 2023.

8. ADJOURNMENT

At 10:57 a.m., there being no further business, **MOTION** was made by S. Ritchie and seconded by H. Stafford to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,



Joanna M. Adams
Pensions Administrator



Mark Finfrock (Feb 15, 2023 15:07 EST)

Mark Finfrock, Chair
Audit Committee