



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 MAY 6, 2022

The meeting of the Audit Committee was called to order by Mark Finfrock, Chair, at 9:03 a.m., via video and teleconferencing.

Committee Members Present

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

Others Present

Joanna Adams, Pension Office
Stephenie Tatman, Pension Office
Vicki Schultes, Pension Office
Ryan Connell, Deputy Attorney General
Josh Hitchens, Pension Office
Khairat Makanjuola, Pension Office

Mike Devitis, KPMG
James Pollock, KPMG
Jim Doyle, BDO
Keith Hammond, BDO
Sophia Smith, Windmark

1. OPENING COMMENTS:

M. Finfrock began the meeting with a roll call, then moved to the second item on the agenda – review and approval of the minutes of the Audit Committee meeting of February 4, 2022.

2. APPROVAL OF THE MINUTES:

The Audit Committee reviewed the Public Minutes of the February 4, 2022 meeting.

MOTION made by J. Seibert and seconded by K. White to approve the Public Minutes of the February 4, 2022 meeting with corrections as noted.

MOTION ADOPTED UNANIMOUSLY

The Audit Committee reviewed the Executive Minutes of the February 4, 2022 meeting.

MOTION made by K. White and seconded by S. Ritchie to approve the Executive Minutes of the February 4, 2022 meeting, subject to noted changes discussed during the Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION made by J. Seibert and seconded by H. Stafford to move into 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 S. Ritchie and seconded by K. White to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

3. EXTERNAL AUDIT REPORT*

GASB 68 AND 75 UPDATE:

There was nothing to report.

4. INTERNAL AUDIT REPORT

INTERNAL AUDIT FUNCTION STATUS UPDATE:

M. Finfrock provided an overview of the vacant Internal Auditor position in the Office of Pensions. KPMG was requested to be the temporary lead to develop and execute the risk assessment as well as develop a proposed internal audit plan that the Audit Committee would review in the July meeting. Each proposed audit would include a cost estimate as if KPMG were leading the engagement.

MOTION made by K. White and seconded by S. Ritchie to approve KPMG taking the lead on the Fiscal Year 2023 risk assessment and developing a proposed Fiscal Year 2023 Internal Audit Plan for presentation at the July 15th Audit Committee Meeting.

MOTION ADOPTED BY THE MAJORITY, with J. Seibert abstaining.

5. PENSION ADMINISTRATOR'S UPDATE

POSITIONS UPDATE:

Ms. Adams began by sharing that the Department of Human Resources (DHR) recently conducted a maintenance review of the Human Resource classifications. The Pension Office is traditionally challenged with a staff retainment issue. Roughly 40 positions – 2/3 of the Pension Office staff – are Human Resource positions. This review upgraded salaries for all but one level within the class series, resulting in a minimum salary increase of 5% for reclassified staff. Pension Office staff are pleased that our career ladder now has an additional (fourth) rung, which will go a long way in helping retain employees. DHR will be doing additional class series reviews for Fiscal Year 2023; one of which is for fiscal positions, which may result in more good news for the office.

Regarding current vacancies, postings include the Human Resource Analyst, the Internal Auditor, and the Deputy Attorney General. The Human Resource Analyst vacancy exists due to an in-house promotion. The Deputy Attorney General and Internal Auditor have both been posted for quite some time. The Department of Justice has had ongoing vacancies, so this is not isolated to our office. There are far fewer vacancies compared to the vacancies experienced over the last 5-10 years. Considering the job market, the Pension Office is in a good place compared to other agencies.

LEGISLATIVE UPDATE:

Ms. Adams stated that since our last meeting, the following legislative activity has occurred:

SB 14 (Sponsored by Senator Ennis): This legislation intends to implement a post-retirement increase funding mechanism and requires whatever post-retirement increase is granted to be twice as much for pensioners who have been retired for 20 years or more. This bill was introduced on April 21, 2022, however, we are working with Senator Ennis and his staff to ask for another amendment. In its present form, the bill gives the Board of Pension Trustees the authority to determine post-retirement increases, whereas that is historically done through legislation. This bill will have a huge fiscal impact (\$47 million between General and Special Funds).

HB 205 (Sponsored by Representative Lamber): This Act establishes the Delaware Expanding Access for Retirement and Necessary Saving (“EARNNS”) program to serve as a vehicle through which eligible employees may, voluntarily, provide for additional retirement security through a State-facilitated retirement savings program in a convenient, cost-effective, and portable manner. This bill does not have a direct impact on the Pension Office.

HB 295 (Sponsored by Speaker Schwartzkopf): This Act contains technical cleanup of definitions as well as updating the Delaware Code and has no impact on Pension Office operations. This was signed on February 16, 2022.

HB 308 (Sponsored by Speaker Schwartzkopf): This bill eliminates the earnings limit for disability pensioners in the New State Police and County and Municipal Police/Firefighters’ Pension Plans. This legislation was signed by the Governor on April 7, 2022.

Lastly, there is still talk of a post-retirement increase, but the final numbers haven’t been released yet.

GOVERNANCE UPDATE:

Ms. Adams stated that Tom Shaw submitted his resignation from the Board of Trustees at the end of January. The Board of Pension Trustees is excited to welcome former State Treasurer Ken Simpler, who was nominated for the role by Governor Carney and confirmed by the Senate. In addition, Pam Tikellis, a former member of the Investments Committee, has accepted the role of Governance Committee Chair.

PENSIONS OFFICE NEWS:

The substitute teacher shortage has been a challenge for over ten years and has been compounded due to the pandemic and increased use of leave due to Covid. DSEA has asked for consideration to eliminate

the required 6-month separation period for a retiree to return to work as a substitute. Retirees as of 1/1/2022 or before can return to work with a one-month separation. We are not sure how impactful it was to the schools because it lasted only two months, but it did impact our internal process.

The Office of Pensions is in the process of working with the Statewide Benefits Office to transition pensioners to a Medicare Advantage Plan. Retirees recently experienced a transition in the Pharmacy Benefits Manager. Lessons learned from this latest transition are being applied to make this process as smooth as possible for retirees. Fortunately, the change to the Medicare Advantage Plan has a major positive impact on the OPEB liability and adds new benefits with less cost to pensioners, so it's a win-win.

There is currently a 1% carveout in the Governor's Recommended Budget for automatic investment in the OPEB account. This carveout will grow annually, in proportion to the budget. This is the first time in OPEB's history, so this is big news. In addition, there is still a portion of other employment costs that will be deposited to OPEB. The only remaining item for the Retiree Benefits Study Committee (RBSC) to consider is what type of plan change could take place to have the OPEB as close as possible to 100% funded by 2050.

6. DEPUTY ATTORNEY GENERAL REPORT

There was nothing to report.

7. MEETING DATES FOR 2022:

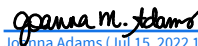
Future meeting dates for 2022 are July 15th and November 4th. It was noted that the agenda is incorrect; the November meeting date is the 4th, not the 9th.


8. ADJOURNMENT

At 10:56 a.m., there being no further business, **MOTION** was made by K. White and seconded by J. Seibert to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,


Joanna Adams (Jul 15, 2022 14:13 EDT)
Joanna M. Adams
Pensions Administrator


Mark Finfrock (Jul 27, 2022 16:50 EDT)
Mark Finfrock, Chair
Audit Committee