

**ND STATE INVESTMENT BOARD  
AUDIT COMMITTEE MEETING**

Friday September 23, 2016 – 1:00 PM  
State Capitol – Peace Garden Room  
600 East Blvd Ave, Bismarck, ND 58505-0130

**AGENDA**

1. Call to Order and Approval of Agenda – Chair (committee action)(5 minutes)
2. Approval of May 19, 2016 Minutes – Chair (committee action)(5 minutes)
3. Election of Chair, Vice Chair, and Liaison – Chair (committee action)(10 minutes)
4. Affirmation of Code of Conduct Policy – Cody Schmidt, ND RIO Compliance Officer (information)(5 minutes)
5. 2015 – 2016 Year End Audit Activities Report – Terra Miller Bowley (committee action)(20 minutes)
6. 2015 – 2016 Audit Committee Report to SIB – Terra Miller Bowley (committee action)(10 minutes)
7. 2016 – 2017 First Quarter Audit Activities Update – Terra Miller Bowley (information)(10 minutes)
8. Other – Next SIB Audit Committee Meeting

Workforce Safety and Insurance (WSI)  
Thursday, November 17, 2016 @ 3:00 PM  
1600 E Century Ave, Bismarck, ND 58503

9. Adjournment

Any individual requiring an auxiliary aid or service should contact the Retirement and Investment Office at (701) 328-9885 at least (3) days prior to the scheduled meeting.

**STATE INVESTMENT BOARD  
AUDIT COMMITTEE MEETING  
MINUTES OF THE  
MAY 19, 2016, MEETING**

**COMMITTEE MEMBERS PRESENT:** Rebecca Dorwart, Chair  
Mike Gessner, TFFR Board (TLCF)  
Karol Riedman, ND University System  
Mike Sandal, PERS Board  
Cindy Ternes, Workforce Safety & Insurance

**STAFF PRESENT:** Connie Flanagan, Fiscal & Invt Ops Mgr  
Bonnie Heit, Assist to the Audit Committee  
David Hunter, ED/CIO  
Bradley Kasper, Intern  
Fay Kopp, Dep ED/CRO  
Terra Miller Bowley, Suprv Audit Services  
Shelly Schumacher, Retirement Program Mgr  
Dottie Thorsen, Internal Auditor

**GUESTS:** Thomas Rey, CliftonLarsonAllen

**CALL TO ORDER:**

Ms. Dorwart called the State Investment Board (SIB) Audit Committee meeting to order at 3:04 p.m., on Thursday, May 19, 2016, at the State Capitol, Peace Garden Room, Bismarck, ND.

A quorum was present for the purpose of conducting business.

**AGENDA:**

**IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO APPROVE THE REVISED AGENDA FOR THE MAY 19, 2016, MEETING AS DISTRIBUTED.**

**AYES: MR. SANDAL, MS. TERNES, MS. RIEDMAN, MR. GESSNER, AND MS. DORWART**

**NAYS: NONE**

**MOTION CARRIED**

**MINUTES:**

**IT WAS MOVED BY MR. SANDAL AND SECONDED BY MS. RIEDMAN AND CARRIED ON A VOICE VOTE TO APPROVE THE FEBRUARY 25, 2016, MINUTES AS DISTRIBUTED.**

**AYES: MR. GESSNER, MR. SANDAL, MS. TERNES, MS. RIEDMAN, AND MS. DORWART**

**NAYS: NONE**

**MOTION CARRIED**

**CLIFTONLARSONALLEN:**

Mr. Thomas Rey, CliftonLarsonAllen, reviewed the engagement and work plan for the audit of the financial statements of the Retirement and Investment Office (RIO) for the period of July 1, 2015 to June 30, 2016.

Mr. Rey also reviewed the audit results for GASB 68 schedules (schedules of employer allocations and pension amounts by employer) for the period ending June 30, 2015. An unmodified clean opinion was issued on the schedules.

**IT WAS MOVED BY MS. TERNES AND SECONDED BY MS. RIEDMAN AND CARRIED BY A VOICE VOTE TO ACCEPT THE GASB 68 SCHEDULES AUDIT REPORT.**

**AYES: MS. TERNES, MS. RIEDMAN, MR. SANDAL, MR. GESSNER, AND MS. DORWART**

**NAYS: NONE**

**MOTION CARRIED**

Ms. Miller Bowley introduced Mr. Bradley Kasper. Mr. Kasper is interning with the Retirement and Investment Office for the period of May 16 - August 19, 2016. Mr. Kasper will be primarily working with the Audit Division and will also be assisting the Retirement Services Division approximately one to two days a week.

**AUDIT SERVICES ACTIVITIES REPORT:**

Ms. Miller Bowley reviewed Audit Service activities for the period of January 1, 2016 - March 31, 2016.

Two compliance audits were re-opened after additional information was received from the employers. The additional information was evaluated and amended reports were issued. Ms. Miller Bowley stated no additional employer audits were completed during the third quarter. Eight audits are currently in progress, which once completed will conclude the end of the third audit cycle. Six audit notifications were sent to employers for the fourth audit cycle. Those audits will begin once the third audit cycle is completed.

Ms. Miller Bowley also stated the TFFR File Maintenance audit for the second quarter of fiscal year 2016 is currently in progress and will be concluded prior to the close of the fiscal year.

In February 2016, Audit Services verified the accuracy of retirement salaries, contributions, and service hours reported to TFFR for the prior fiscal year for 50 randomly selected member accounts representing 39 employers. Audit results required corrections to eight member accounts.

The audit on Executive Limitations for calendar year 2015 was issued in February 2016. Audit results indicated the Executive Director/CIO was in compliance with the SIB Governance Manual Executive Limitation policies A-1 through A-11.

Audit Services also administered an employee opinion survey in January 2016, which provides employees the opportunity to share their opinions regarding the physical office environment and resources, job satisfaction, employee morale, compensation, and immediate supervisors.

Audit Services also assisted the SIB Executive Review Committee in the evaluation of the Executive Director/CIO for the period of January 1, 2015 - December 31, 2015 by administering a survey to the SIB, which evaluated the Executive Director/CIO's level of compliance with the Ends and Executive Limitation policies. Survey results were compiled in April 2016.

Ms. Miller Bowley also stated the Audit Services Division continues to pursue professional development opportunities via the Institute of Internal Auditor's local chapter, Central Nodak.

**IT WAS MOVED BY MR. SANDAL AND SECONDED BY MS. RIEDMAN AND CARRIED ON A VOICE VOTE TO ACCEPT THE AUDIT ACTIVITIES REPORT FOR THE PERIOD OF JANUARY 1, 2016 - MARCH 31, 2016.**

**AYES: MR. GESSNER, MS. RIEDMAN, MR. SANDAL, MS. TERNES, AND MS. DORWART**

**NAYS: NONE**

**MOTION CARRIED**

**AUDIT PLAN:**

Ms. Miller Bowley reviewed the Audit Services workplan, budgeted hours, TFFR participating employer risk assessment, and employer audit plans for the period of July 1, 2016 - June 30, 2017, as well as future years. Significant changes were made to the workplan in an effort to direct activities that are of greatest concern to the SIB Audit Committee, RIO Management, and the external audit partners. After discussion,

**IT WAS MOVED BY MS. TERNES AND SECONDED BY MS. RIEDMAN AND CARRIED ON A VOICE VOTE TO ACCEPT THE 2016-17 AUDIT SERVICES WORKPLAN.**

**AYES: MR. SANDAL, MS. TERNES, MS. RIEDMAN, MR. GESSNER, AND MS. DORWART**

**NAYS: NONE**

**MOTION CARRIED**

**AUDIT CHARTER:**

Ms. Miller Bowley stated at the February 25, 2016, Audit Committee meeting the Audit Committee reviewed proposed revisions to the current audit charter and requested that staff submit the charter to legal counsel for review. Legal counsel, Ms. Jan Murtha, completed the review and indicated the charter is acceptable in its current format but also provided suggestions for the Audit Committee's consideration. After discussion,

**IT WAS MOVED BY MR. SANDAL AND SECONDED BY MS. RIEDMAN AND CARRIED ON A VOICE VOTE TO APPROVE THE ADOPTION OF THE CHARTER BASED UPON THE CURRENT DISCUSSION AND AUTHORIZE STAFF TO DO THE WORDSMITHING TO REFLECT THE REVISIONS DISCUSSED PRIOR TO SUBMITTING THE CHARTER TO THE SIB FOR APPROVAL.**

**AYES: MS. TERNES, MS. RIEDMAN, MR. SANDAL, AND MS. DORWART**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: MR. GESSNER**

Ms. Miller Bowley also informed the Audit Committee RIO personnel would be formalizing a Fraud Reporting policy, which will be included in the office administrative policy manual. Ms. Miller Bowley inquired of the Audit Committee if language could be included that would site the Audit Committee as a body where a confidential report of fraudulent activity could be made. The Audit Committee concurred that the appropriate language should be included.

**AUDIT COMMITTEE MEMBERSHIP:**

Ms. Miller Bowley stated the Audit Committee's membership has a one-year term and will expire on June 30, 2016. Ms. Miller Bowley requested the Audit Committee inform her if they would or would not like to continue to serve on the committee by June 1, 2016.

**GOVERNMENT FINANCE OFFICERS ASSOCIATION (GFOA):**

Ms. Miller Bowley notified the Audit Committee the Retirement and Investment Office has received a Certificate of Achievement for Excellence in Financial Reporting from GFOA. This marks the 18<sup>th</sup> consecutive year that RIO will have been awarded this honor. Mr. Hunter will publish the news in the office publications that he feels would be appropriate.

**OTHER:**

The next Audit Committee meeting is scheduled for Friday, September 23, 2016 at 1:00 pm at the State Capitol, Peace Garden Room, Bismarck, ND.

**ADJOURNMENT:**

With no further business to come before the Audit Committee, Ms. Dorwart adjourned the meeting at 5:04 p.m.

Respectfully Submitted:

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Ms. Rebecca Dorwart, Chair  
SIB Audit Committee

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Bonnie Heit  
Assistant to the Audit Committee

# MEMORANDUM

**TO:** State Investment Board (SIB) Audit Committee

**FROM:** Terra Miller Bowley, Supervisor of Audit Services

**DATE:** September 23, 2016

**SUBJECT:** Affirmation of Code of Conduct Policy

At the start of each fiscal year members of the State Investment Board (SIB) are required to affirm their understanding of SIB Governance Manual Policy B-8, *Board Members' Code of Conduct*, which details the code of ethical responsibility applicable to members of the SIB. As a standing committee of the SIB, the SIB Audit Committee is required to adhere to any applicable policies contained within the SIB Governance Manual. Historically, not all members of the SIB Audit Committee have been required to affirm their understanding of SIB Governance Manual Policy B-8. RIO would like to rectify this situation and request all members of the SIB Audit Committee comply with the provisions of SIB Governance Manual Policy B-8, including the two members of the SIB Audit Committee selected from outside the SIB. Affirmation of the Code of Conduct Policy will be required annually moving forward.

Cody Schmidt, Retirement and Investment Office (RIO) Compliance Officer, will be on hand to answer any questions the board may have and discuss the affirmation and policy included in the meeting materials.

# Memorandum

**To: State Investment Board Audit Committee**

**From: Cody Schmidt, ND RIO Compliance Officer**

**Date: September 23, 2016**

**RE: Affirmation of Code of Conduct Policy**

Governance Process Policy B-8, *Board Members' Code of Conduct*, which is attached to this memorandum, details the Code of Ethical Responsibility for the SIB and the board's standing committee the SIB Audit Committee. Item #10 of this policy indicates that each Board Member is required to affirm their understanding of this policy annually and disclose any conflicts of interest. Therefore, please read and sign the statement below to comply with this requirement.

"I have read and understand SIB Governance Process Policy B-8 *Board Members' Code of Conduct*. I have disclosed any conflicts of interest as required by this policy."

Name (printed) \_\_\_\_\_

Signature \_\_\_\_\_

Date \_\_\_\_\_

Detail of any conflicts of interest (if any):

**POLICY TYPE: GOVERNANCE PROCESS**

**POLICY TITLE: BOARD MEMBERS' CODE OF CONDUCT**

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The following will be the Code of Ethical Responsibility for the SIB:

1. SIB members owe a duty to conduct themselves so as to inspire the confidence, respect, and trust of the SIB members and to strive to avoid not only professional impropriety but also the appearance of impropriety.
2. SIB members should perform the duties of their offices impartially and diligently. SIB members are expected to fulfill their responsibilities in accord with the intent of all applicable laws and regulations and to refrain from any form of dishonest or unethical conduct. Board members should be unswayed by partisan interest, public sentiment, or fear of criticism.
3. Conflicts of interest and the appearance of impropriety shall be avoided by SIB members. Board members must not allow their family, social, professional, or other relationships to influence their judgment in discharging their responsibilities. Board members must refrain from financial and business dealings that tend to reflect adversely on their duties. If a conflict of interest unavoidably arises, the board member shall immediately disclose the conflict to the SIB. A board member must abstain in those situations where the board member is faced with taking some official action regarding property or a contract in which the board member has a personal interest. Conflicts of interest to be avoided include, but are not limited to: receiving consideration for advice given to a person concerning any matter over which the board member has any direct or indirect control, acting as an agent or attorney for a person in a transaction involving the board, and participation in any transaction involving for which the board member has acquire information unavailable to the general public, through participation on the board.

“Conflict of Interest” means a situation in which a board member or staff member has a direct and substantial personal or financial interest in a matter which also involves the member’s fiduciary responsibility.

4. The board should not unnecessarily retain consultants. The hiring of consultants shall be based on merit, avoiding nepotism and preference based upon considerations other than merit that may occur for any reason, including prior working relationships. The compensation of such consultants shall not exceed the fair value of services rendered.
5. Board members must abide by North Dakota Century code 21-10-09, which reads: “No member, officer, agent, or employee of the state investment board shall profit in any manner from transactions on behalf of the funds. Any person violating any of the provisions of this section shall be guilty of a Class A misdemeanor.”
6. Board members shall perform their respective duties in a manner that satisfies their fiduciary responsibilities.
7. All activities and transactions performed on behalf of the public funds must be for the exclusive purpose of providing benefits to plan participants and defraying reasonable expenses of administering the plan.



**POLICY TYPE: GOVERNANCE PROCESS**

**POLICY TITLE: BOARD MEMBERS' CODE OF CONDUCT**

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8. Prohibited transactions. Prohibited transactions are those involving self-dealing. Self-dealing refers to the fiduciary's use of plan assets or material, non-public information for personal gain; engaging in transactions on behalf of parties whose interests are adverse to the plan; or receiving personal consideration in connection with any planned transaction.
9. Violation of these rules may result in an official reprimand from the SIB. No reprimand may be issued until the board member or employee has had the opportunity to be heard by the board.
10. Board Members are required to affirm their understanding of this policy annually, in writing, and must disclose any conflicts of interest that may arise (See Exhibit B-I).

**Policy Implemented:** June 23, 1995.

**Amended:** January 22, 1999, February 25, 2011, January 27, 2012, February 27, 2015.

## MEMORANDUM

**TO:** State Investment Board (SIB) Audit Committee

**FROM:** Terra Miller Bowley, Supervisor of Audit Services

**DATE:** September 23, 2016

**SUBJECT:** 2015-2016 Year End Audit Activities Report

Audit coverage was based on the July 1, 2015 through June 30, 2016 work plan approved by the SIB Audit Committee. The audit activities undertaken were consistent with the Audit Services charter and goals, and the goals of RIO. To the extent possible, our audits were carried out in accordance with the International Standards for the Professional Practice of Internal Auditing. Audit effort was directed towards the needs of RIO and the concerns of management and the SIB Audit Committee.

### RETIREMENT PROGRAM AUDITS:

- **Teachers' Fund For Retirement (TFFR) Compliance Audits**
  - **AUDIT PLAN REQUIREMENTS:** Complete a total of 35 TFFR Compliance Audits during the fiscal year. Complete Not in Compliance (NIC) Reviews as needed based on prior audit findings. Notify approximately 40 employers of upcoming TFFR Compliance Audit. Complete audit planning for the upcoming fiscal year in the fourth quarter.
  - **2015-2016 ACTUAL ACTIVITIES:**
    - A total of twenty two (22) TFFR employer audits were completed during fiscal year 2016. This included 21 TFFR Compliance Audits and 1 Not in Compliance (NIC) Review.
      - A total of nine (9) TFFR employer audits were in progress at the conclusion of fiscal year 2016. This included two (2) employers in the third audit cycle, Ft. Totten Public School District and White Shield Public School District, and seven (7) employers in the fourth audit cycle which was started on May 23, 2016.
      - A total of seven (7) TFFR employer audits were pending but not yet started at the conclusion of fiscal year 2016. All pending audits were in the fourth audit cycle.
      - Audit information was pending from three (3) employers who had been notified of an upcoming TFFR Compliance Audit. All employers notified were in the fourth audit cycle.
    - A total of twenty five (25) employers received audit notifications in fiscal year 2016.
    - Audit planning for fiscal year 2016-2017 was completed in the fourth quarter and presented to and approved by the SIB Audit Committee in May 2016.
- **Regional Education Associations (REA) Audits**
  - **AUDIT PLAN REQUIREMENTS:** Create and implement an audit program which addresses REAs. Complete compliance audits of two REAs.
  - **2015-2016 ACTUAL ACTIVITIES:**
    - Audits of two REAs were not completed in fiscal year 2016. Hours allocated to this particular task were reallocated to other higher priority audit activities.
- **Benefit Payments Audit**
  - **AUDIT PLAN REQUIREMENTS:** On an annual basis a review of deaths, long outstanding checks, purchases of service, and refunds is completed to determine that established policies and procedures are being followed by Retirement Services employees.
  - **2015-2016 ACTUAL ACTIVITIES:**
    - The Benefit Payment Audit was completed on September 3, 2015.

- **TFFR File Maintenance Audit**
  - **AUDIT PLAN REQUIREMENTS:** On a quarterly basis changes made to TFFR member account data by Retirement and Investment Office (RIO) employees is reviewed.
  - **2015-2016 ACTUAL ACTIVITIES:**
    - The TFFR File Maintenance Audit for the fourth quarter of 2015 was completed on September 8, 2015. The TFFR File Maintenance Audit for the first quarter of 2016 was completed on November 17, 2015. The TFFR File Maintenance Audit for the second quarter of 2016 was completed on May 13, 2016. The TFFR File Maintenance Audit for the third quarter of 2016 was completed on June 30, 2016.
  
- **Annual Salary Verification Project**
  - **AUDIT PLAN REQUIREMENTS:** On an annual basis during the third quarter Audit Services will verify salaries reported to TFFR for the prior fiscal year for 50 randomly selected member accounts.
  - **2015-2016 ACTUAL ACTIVITIES:**
    - The Annual Salary Verification Project for fiscal year 2015 was completed on March 16, 2016.
  
- **TFFR Cost Effective Benefit Payments/Benefit Recalculation**
  - **AUDIT PLAN REQUIREMENTS:** One of the missions of the RIO is to ensure that TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner. On an annual basis Audit Services has been asked to verify that this mission is being achieved. As part of this overall process Audit Services will also verify the accuracy of benefit payments via the recalculation of benefits.
  - **2015-2016 ACTUAL ACTIVITIES:**
    - Start of the TFFR Cost Effective Benefit Payments/Benefit Recalculation Audit was delayed and the audit was not completed prior to the close of fiscal year 2016. The audit is currently in progress.

**AGENCY ADMINISTRATIVE AND INVESTMENT AUDITS:**

- **Executive Limitation Audit**
  - **AUDIT PLAN REQUIREMENTS:** On an annual basis the Executive Director/CIO's compliance with the State Investment Board (SIB) Governance Manual Executive Limitation Policies A-1 through A-11 is reviewed. The RIO conducts two employee opinion surveys on an annual basis. Audit Services also facilitates and compiles the results of the annual SIB Executive Review Committee survey administered to members of the SIB.
  - **2015-2016 ACTUAL ACTIVITIES:**
    - The Executive Limitation Audit for calendar year 2015 was completed on February 5, 2016. Two employee opinion surveys were administered in December 2015 and January 2016. The SIB Executive Review Committee survey was administered in March 2016.
  
- **Investment Performance Summary Review**
  - **AUDIT PLAN REQUIREMENTS:** Audit Services will review the reasonableness of the "Investment Performance Summary" table in RIO's CAFR for the last five fiscal years ended June 30, 2015 and annualized returns for the 3, 5, 10, and 20 years ended June 30, 2015.
  - **2015-2016 ACTUAL ACTIVITIES:**
    - The Investment Performance Summary Review was not completed in fiscal year 2016. Hours allocated to this particular task were reallocated to higher priority audit activities.
  
- **Schedule of Investment Fees Review & Investment Management Fees Review**
  - **AUDIT PLAN REQUIREMENTS:** Audit Services will review the reasonableness of the "Schedule of Investment Fees" in RIO's CAFR for the last six fiscal years ended June 30, 2015. Audit Services will also review the reasonableness of the five largest investment management fees and five largest incentive/investment performance fees for the fiscal year ended June 30, 2015.
  - **2015-2016 ACTUAL ACTIVITIES:**
    - Schedule of Investment Fees Review & Investment Management Fees Review were not completed in fiscal year 2016. Hours allocated to this particular task were reallocated to higher priority audit activities.

- **RIO External Auditor Assistance**
  - **AUDIT PLAN REQUIREMENTS:** Audit Services assists our external auditor, CliftonLarsonAllen, with a variety of tasks related to the annual financial audit of RIO and the GASB 68 census data audits.
  - **2015-2016 ACTUAL ACTIVITIES:**
    - Audit Services provided assistance to our external audit partners CliftonLarsonAllen during the financial audit of the RIO as well as the GASB 68 census data audits.

**ADMINISTRATIVE ACTIVITIES (NON AUDIT RELATED):**

- **Professional Development/CE/General Education**
  - **AUDIT PLAN REQUIREMENTS:** Audit Services is a member of the Institute of Internal Auditors (IIA) and attends monthly meetings along with bi-annual seminars. A member of Audit Services attends a national industry conference on an annual basis. The Supervisor of Audit Services is also pursuing a Certified Internal Auditor (CIA) professional designation which will require ongoing continuing education.
  - **2015-2016 ACTUAL ACTIVITIES:**
    - Staff attended local IIA meetings, a risk management seminar, an auditing practices seminar, and various webinars. The Supervisor of Audit Services continued to pursue a Certified Internal Auditor (CIA) designation by successfully completing Part II of the CIA Exam in November 2015. The Supervisor of Audit Services also attended the IIA Central Regional Conference in May 2016.
  
- **Audit Services Procedure Manual**
  - **AUDIT PLAN REQUIREMENTS:** Creation of an Audit Services policy and procedure manual.
  - **2015-2016 ACTUAL ACTIVITIES:**
    - Procedures for the TFFR File Maintenance Audit were completed during fiscal year 2016.
  
- **Audit Services/Retirement Services Internship Program**
  - **AUDIT PLAN REQUIREMENTS:** Not included in Audit Services work plan approved for July 1, 2015 through June 30, 2016. Internship program initiated at the request of the Executive Director/CIO and SIB Audit Committee.
  - **2015-2016 ACTUAL ACTIVITIES:**
    - Supervisor of Audit Services and Retirement Program Manager were tasked with the creation of an internship program for the RIO. Internship work plan was submitted to HRMS for approval in March 2016. Qualifications and other job requirements were defined with the assistance of HRMS and the position was posted, interviews were conducted, and a candidate selected in April 2016. The intern arrived in our offices on May 16, 2016. The internship lasted a total of 14 weeks with time allocated between Audit Services and Retirement Services. The Supervisor of Audit Services and Retirement Program Manager were responsible for orientation, training, and ongoing support. The internship concluded on August 19, 2016.

**REPORT ON COMPLIANCE AUDIT  
FOR REPORTING AND PAYMENTS  
TO THE TEACHERS' FUND FOR RETIREMENT  
BOWMAN PUBLIC SCHOOL DISTRICT  
JUNE 16, 2016**

**PURPOSE**

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with RIO/TFFR Management upon completion. Independent reports are filed with the Audit Committee of the State Investment Board (SIB) quarterly. All independent reports filed with the Audit Committee of the SIB are published on the RIO website in compliance with North Dakota open records and meetings laws.

**SCOPE**

This audit is designed to test the accuracy of retirement salaries and contributions reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the employer for the 2013/14 through 2014/15 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. Please reference the worksheet labeled *Primary Test* for additional information.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited.

The Primary Test did not disclose any reporting procedure used by the employer that would affect a large portion of the population for fiscal years 2013/14 through 2014/15. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

**FINDINGS**

In our opinion, for the time period covered in the audit, the retirement salaries for fiscal years 2013/14 through 2014/15 reported by the Bowman Public School District are in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted.

1. The employer incorrectly reported actual hours worked for one member.
2. The employer does not issue written agreements for summer school.

**RECOMMENDATIONS AND CORRECTIVE ACTION**

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is [www.nd.gov/rio/TFFR/Publications](http://www.nd.gov/rio/TFFR/Publications).

Finding 1:

The employer incorrectly reported actual hours worked for one member. The employer is required to report actual hours worked to TFFR for members. Corrections will be made to the member account and RIO will notify the member that adjustments have been made to their account. Please reference the worksheet labeled *Service Hours Correction* for additional information.

Finding 2:

The employer does not issue written agreements for summer school. TFFR recommends that the District provide written agreements to **all** members for summer salary. A written agreement can be a contract, school board minutes or other official document evidencing a contractual relationship between a teacher and a participating employer. If written agreements are not issued to a teacher from outside the District or teachers without a continuing contract with the District, the salary would not be reported.

**Please provide a written response detailing actions to be taken to correct the above findings by July 15, 2016.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.

Bradley Kasper  
Staff Auditor

Enclosures

**REPORT ON COMPLIANCE AUDIT  
FOR REPORTING AND PAYMENTS  
TO THE TEACHERS' FUND FOR RETIREMENT  
NORTH VALLEY CAREER AND TECHNOLOGY CENTER  
MAY 6, 2016**

**PURPOSE**

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with RIO/TFFR Management upon completion. Independent reports are filed with the Audit Committee of the State Investment Board (SIB) quarterly. All independent reports filed with the Audit Committee of the SIB are published on the RIO website in compliance with North Dakota open records and meetings laws.

**SCOPE**

This audit is designed to test the accuracy of retirement salaries and contributions reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the District for the 2012/13 through 2013/14 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined (see Schedule 1-Primary Test).

The Schedule 1-Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited (see Schedule 1-Primary Test).

The Schedule 1-Primary Test did not disclose any reporting procedure used by the District that would affect a large portion of the population for fiscal years 2012/13 through 2013/14. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

**FINDINGS**

In our opinion, for the time period covered in the audit, the retirement salaries for fiscal years 2012/13 through 2013/14 reported by the North Valley Career and Technology Center were in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted.

1. The District reported salary in the wrong fiscal year for three members.
2. Actual service hours were reported incorrectly for one retired teacher who returned to teach.

## **RECOMMENDATIONS AND CORRECTIVE ACTION**

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is [www.nd.gov/rio/TFFR/Publications](http://www.nd.gov/rio/TFFR/Publications).

### Finding 1:

The District reported summer salary in the wrong fiscal year for three members. Salary is reportable in the fiscal year in which the pay is earned. The salary will be moved to the correct fiscal year for two members (see Schedule 1-Primary Test and Worksheet for Changes in Salaries and Contributions). Service hours will not be adjusted because the two members were full time teachers and earned a full year of service. RIO will notify the two members that adjustments have been made to their accounts. The third member's account will not be corrected because the amount of salary reported in the wrong fiscal year was immaterial.

### Finding 2:

The District reported service hours incorrectly for one retired teacher who returned to teach. The District does not have a system with timecards in place to monitor the hours worked. The incorrect hours reported were due to an isolated programming error. No correction will be made to the account because the hours reported did not exceed the maximum hours allowed.

**The amount of contributions overpaid by the District was \$32.63 (See Summary Schedule 2). The check for the amount overpaid will be sent to the Business Manager. Please provide a written response on the District's intent to correct the above errors in future reporting to TFFR by June 7, 2016.**

During a number of recent employer audits and reviews conducted by the Audit Services Division of the RIO, it became clear that employers were unsure if certain payments made to licensed teachers for maintenance and repair duties were TFFR eligible. This uncertainty led to inconsistent reporting practices. In March 2016, the TFFR Board opted to review the eligibility of maintenance and repair salary in an effort to provide employers with additional clarity on the issue. The TFFR Board rendered an opinion in March 2016 approving a formal written policy in April 2016. The policy regarding the eligibility of maintenance and repair salary is included with this report for your review. Please do not hesitate to contact Fay Kopp or Shelly Schumacher to discuss specific employer reporting questions and documentation.

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.

Dottie Thorsen  
Auditor

Enclosures



**REPORT ON COMPLIANCE AU  
FOR REPORTING AND PAYMENTS  
TO THE TEACHERS' FUND FOR RETIREMENT  
PARSHALL PUBLIC SCHOOL DISTRICT  
JUNE 28, 2016**

**PURPOSE**

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with RIO/TFFR Management upon completion. Independent reports are filed with the Audit Committee of the State Investment Board (SIB) quarterly. All independent reports filed with the Audit Committee of the SIB are published on the RIO website in compliance with North Dakota open records and meetings laws.

**SCOPE**

This audit is designed to test the accuracy of retirement salaries and contributions reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the employer for the 2013/14 through 2014/15 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. Please reference the worksheet labeled *Primary Test*.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited.

The Primary Test did not disclose any reporting procedure used by the employer that would affect a large portion of the population for fiscal years 2013/14 through 2014/15. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

**FINDINGS**

In our opinion, for the time period covered in the audit, the retirement salaries for fiscal years 2013/14 through 2014/15 reported by the Parshall Public School District are not in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted.

1. The District did not report eligible information technology coordination and services salary for one member.
2. The District reported salary which was not earned for two members.
3. The District did not report eligible contract salary for three members.
4. The District did not report eligible professional development salary for five members.
5. The District reported eligible extra-curricular salary in the wrong fiscal year for one member.
6. The District did not report eligible contract salary for one re-employed retiree.
7. The District reported eligible contract salary after a deduction for one member.
8. The District reported ineligible ticket taking, score keeping, line judging, and/or refereeing salary for ten members.
9. The District reported ineligible tournament manager salary for one member.
10. The District reported service hours incorrectly for one member.
11. The District reported service hours incorrectly for two re-employed retirees.
12. The District does not issue written agreements for summer school.

## **RECOMMENDATIONS AND CORRECTIVE ACTION**

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is [www.nd.gov/rio/TFFR/Publications](http://www.nd.gov/rio/TFFR/Publications).

### **Finding 1:**

The District did not report eligible information technology coordination and services salary for one member. A member provides assistance to the District with network and other computer issues. Information technology coordination and services salary is TFFR eligible. The member's account will be corrected and RIO will notify the member that adjustments have been made to their account. No corrections will be required to service hours as the member earned a full year of service credit in the affected year.

*(Please reference the worksheets labeled Primary Test and Changes in Salaries and Contributions)*

### **Finding 2:**

The District reported salary which was not earned for two members. Undocumented and unidentified salary was reported to TFFR for two members. Payroll records, contracts, and other supporting documentation provided by the District confirm the salary which was reported to TFFR was not earned by or paid to the members. Both member accounts will be corrected and RIO will notify the members that adjustments have been made to their account. No corrections will be required to service hours as the members earned a full year of service credit in the affected years.

*(Please reference the worksheets labeled Primary Test and Changes in Salaries and Contributions)*

### **Finding 3:**

The District did not report eligible contract salary for three members. Two members were not paid their full contracted salary earned, retroactive payments were subsequently issued. Contract salary reported to TFFR at the beginning of the most recent fiscal year (July 2014) was less than amount actually earned for two members. Contract salary earned at the close of the most recent fiscal year (June 2015) was not reported to TFFR for three members. A member's earnings for teaching, supervisory, administrative, and extracurricular services during a school year are eligible TFFR salary. All three member accounts will be corrected and RIO will notify the members that adjustments have been made to their account. No corrections will be required to service hours as the members earned a full year of service credit in the affected year.

*(Please reference the worksheets labeled Primary Test and Changes in Salaries and Contributions)*

### **Finding 4:**

The District did not report eligible professional development salary for six members. Five members of the District attended a Title I conference and one member participated in a workshop (Advanced Ed/Leadership Committee). Professional development salary is TFFR eligible. Reimbursement for expenses (meals, lodging, etc.) and tuition are not TFFR eligible. All six member accounts will be corrected and RIO will notify the members that adjustments have been made to their account. No corrections will be required to service hours as the members earned a full year of service credit in the affected year.

*(Please reference the worksheets labeled Primary Test and Changes in Salaries and Contributions)*

### **Finding 5:**

The District reported eligible extra-curricular salary in the wrong fiscal year for one member. Eligible salary is reportable to TFFR in the fiscal year in which the pay is earned, regardless of when the funds are paid. The member's account will be corrected and RIO will notify the member that adjustments have been made to their account. No corrections will be required to service hours as the member earned a full year of service credit in the affected years.

*(Please reference the worksheets labeled Primary Test and Changes in Salaries and Contributions)*

### **Finding 6:**

The District did not report eligible contract salary for one re-employed retiree. TFFR contributions were not calculated on the re-employed retiree's initial contract salary payment. The error caused salary and contributions to be under reported to TFFR. The member's account will be corrected and RIO will notify the member that adjustments have been made to their account. No corrections to service hours will be required as actual hours worked do not exceed General Rule limitations.

*(Please reference the worksheets labeled Primary Test and Changes in Salaries and Contributions)*

**Finding 7:**

The District reported eligible contract salary after a deduction for one member. A pet deposit was deducted from contract salary prior to the calculation of TFFR contributions causing salary and contributions to be under reported to TFFR. The member's account will be corrected and RIO will notify the member that adjustments have been made to their account. No corrections to service hours will be required as the member earned a full year of service credit in the affected year.

*(Please reference the worksheets labeled Primary Test and Changes in Salaries and Contributions)*

**Finding 8:**

The District reported ineligible ticket taking, score keeping, line judging, and/or refereeing salary for ten members. Payments for all game and desk officials including referees, umpires, line judges, score keepers, time keepers, ticket takers, ushers, tournament managers, and other judges or officials are not reportable to TFFR. This also includes payments to judges or officials of other non-sporting events such as music, drama, and speech. All ten member accounts will be corrected and RIO will notify the members that adjustments have been made to their account. No corrections to service hours will be required as the members earned a full year of service credit in the affected year(s).

*(Please reference the worksheets labeled Primary Test and Changes in Salaries and Contributions)*

**Finding 9:**

The District reported ineligible tournament manager salary for one member. Payments for tournament managers are not reportable to TFFR. The member's account will be corrected and RIO will notify the member that adjustments have been made to their account. No corrections to service hours will be required as the member earned a full year of service credit in the affected year.

*(Please reference the worksheets labeled Primary Test and Changes in Salaries and Contributions)*

**Finding 10:**

The District reported service hours incorrectly for one member. The member is employed part-time with the District. The member's account will be corrected and RIO will notify the member that adjustments have been made to their account.

*(Please reference Service Hours Correction worksheet)*

**Finding 11:**

The District reported service hours incorrectly for two re-employed retirees. State law allows retirees who are receiving TFFR retirement benefits to return to covered employment under certain limitations. If the retiree exceeds the limitations, TFFR must discontinue payment of retirement benefits. One such limitation which must be adhered to is the General Rule – Annual Hour Limit, retirees who return to covered employment under the General Rule are restricted in the number of hours which can be worked based on the length of the contract issued. The District is required to report actual hours worked by retirees who have returned to covered employment to TFFR with the exception of non-contracted substitute teaching, professional development, and extra-curricular duty hours which do not apply to the annual hour limit. It is recommended that the District establish procedures to monitor retirees who have returned to covered employment to ensure proper reporting of hours to TFFR. No corrections are required to the member accounts as actual hours worked do not exceed General Rule limitations.

**Finding 12:**

The District does not issue written agreements for summer school. TFFR recommends that the District provide written agreements for all members. A written agreement can be a contract, school board minutes, or other official document evidencing a contractual relationship between a teacher and a participating employer. If written agreements are not issued to teachers from outside the District or to teachers without a continuing contract with the District, the summer salary would not be reportable.

**The amount of contributions due with interest is \$4,223.40. An invoice for the net amount of contributions due is included. It is the responsibility of the employer to collect contributions due from the members or refund contributions overpaid to the members. Please reference the worksheet labeled Salary Correction Summary for additional details. Please provide payment for the contributions due and provide a written response on the District's intent to correct the above findings by July 29, 2016.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.



Terra L. Miller Bowley  
Supervisor of Audit Services  
Enclosures

**REPORT ON COMPLIANCE AUDIT  
FOR REPORTING AND PAYMENTS  
TO THE TEACHERS' FUND FOR RETIREMENT  
SOLENN CANNONBALL PUBLIC SCHOOL DISTRICT  
JUNE 7, 2016**

**PURPOSE**

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with RIO/TFFR Management upon completion. Independent reports are filed with the Audit Committee of the State Investment Board (SIB) quarterly. All independent reports filed with the Audit Committee of the SIB are published on the RIO website in compliance with North Dakota open records and meetings laws.

**SCOPE**

This audit is designed to test the accuracy of retirement salaries and contributions reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the employer for the 2013/14 through 2014/15 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. Please reference the worksheet labeled *Primary Test* for additional information.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited.

The Primary Test did not disclose any reporting procedure used by the employer that would affect a large portion of the population for fiscal years 2013/14 through 2014/15. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

**FINDINGS**

In our opinion, for the time period covered in the audit, the retirement salaries for fiscal years 2013/14 through 2014/15 reported by the Solen Cannonball Public School District are in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted.

1. The employer incorrectly reported actual hours worked for one part-time member.
2. The employer failed to report eligible contract salary for one re-employed retiree.
3. The employer does not actively monitor retirees who have returned to covered employment to ensure they do not exceed the maximum allowable hours.

**RECOMMENDATIONS AND CORRECTIVE ACTION**

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is [www.nd.gov/rio/TFFR/Publications](http://www.nd.gov/rio/TFFR/Publications).

Finding 1:

The employer incorrectly reported actual hours worked for one part-time member. The employer is required to report actual hours worked to TFFR for part-time members. Corrections will be made to the member account and RIO will notify the member that adjustments have been made to their account. Please reference the worksheet labeled *Service Hours Correction* for additional information.

Finding 2:

The employer failed to report eligible contract salary for one re-employed retiree. Earnings received from eligible employment for teaching, supervisory, administrative, and extracurricular services during the school year are TFFR eligible salary. Given the immaterial amount of the error, corrections will not be made to the re-employed retiree's account. A correction to service hours is not required as service hours were reported correctly for the affected fiscal year. Please reference the worksheet labeled *Primary Test* for additional information.

Finding 3:

The employer does not actively monitor retirees who have returned to covered employment to ensure they do not exceed the maximum allowable hours. State law allows retirees who are receiving TFFR retirement benefits to return to covered employment under certain limitations. If the retiree exceeds the limitations, TFFR must discontinue payment of retirement benefits. One such limitation which must be adhered to is the General Rule – Annual Hour Limit. Retirees who return to covered employment under the General Rule are restricted in the hours which can be worked based on the length of the contract issued. The employer is required to report actual hours worked by retirees who have returned to covered employment to TFFR. It is recommended that the employer establish procedures to monitor retirees who have returned to covered employment (i.e. timecards, etc.) to ensure proper reporting of hours to TFFR.

**Please provide a written response detailing actions to be taken to correct the above findings by July 7, 2016.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.



Terra L. Miller Bowley  
Supervisor of Audit Services

Enclosures

**REPORT ON COMPLIANCE AUDIT  
FOR REPORTING AND PAYMENTS  
TO THE TEACHERS' FUND FOR RETIREMENT  
SOUTHEAST REGION CAREER AND TECHNOLOGY CENTER  
JUNE 10, 2016**

**PURPOSE**

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with RIO/TFFR Management upon completion. Independent reports are filed with the Audit Committee of the State Investment Board (SIB) quarterly. All independent reports filed with the Audit Committee of the SIB are published on the RIO website in compliance with North Dakota open records and meetings laws.

**SCOPE**

This audit is designed to test the accuracy of retirement salaries and contributions reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected for the 2012/13 through 2013/14 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined (Schedule 1 - Primary Test).

The Schedule 1 - Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited.

The Schedule 1 - Primary Test did not disclose any reporting procedure used that would affect a large portion of the population for fiscal years 2012/13 through 2013/14. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

**FINDINGS**

In our opinion, for the time period covered in the audit, the retirement salaries for fiscal years 2012/13 through 2013/14 reported by the Southeast Region Career and Technology Center were generally in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted.

1. The Center reported salary in the wrong fiscal year for four members.
2. The Center did not issue written agreements for STEM summer salary.
3. The Center reported service hours incorrectly for three members.

## **RECOMMENDATIONS AND CORRECTIVE ACTION**

TFFR recommends that personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is [www.nd.gov/rio/TFFR/Publications](http://www.nd.gov/rio/TFFR/Publications).

### Finding 1:

The Center reported summer salary in the wrong fiscal year for four members. Salary is reportable in the fiscal year in which the pay is earned. The salary will be moved to the correct fiscal year for the four members. Due to changes in member/employer contribution rates, the error caused an overpayment of contributions. RIO will notify the four members that adjustments have been made to their accounts. (Reference Schedule 1 - Primary Test and Worksheet for Changes in Salaries and Contributions)

### Finding 2:

The Center did not issue written agreements for STEM summer salary. TFFR recommends that employers provide written agreements **for all summer salary**. A written agreement can be a contract, school board minutes, or other official document evidencing a contractual relationship between a teacher and a participating employer. If written agreements are not issued to a teacher employed elsewhere or to teachers without a continuing contract with the employer, the salary would not be reported.

### Finding 3:

The Center reported service hours incorrectly for three members. Two of the three service hour errors were due to the error noted in Finding 1. The members' accounts will be corrected and the members will be notified about the account changes (see the Service Hours Correction Worksheet for each member).

The amount of contributions overpaid by Southeast Region Career and Technology Center is \$220.33 (see Summary Schedule 2). The check for the amount overpaid will be sent to the Business Manager. **Please provide a written response on the District's intent to correct the above errors in future reporting to TFFR by July 11, 2016.**

During a number of recent employer audits and reviews conducted by the Audit Services Division of the RIO, it became clear that employers were unsure if certain payments made to licensed teachers for maintenance and repair duties were TFFR eligible. This uncertainty led to inconsistent reporting practices. In March 2016, the TFFR Board opted to review the eligibility of maintenance and repair salary in an effort to provide employers with additional clarity on the issue. The TFFR Board rendered an opinion in March 2016 approving a formal written policy in April 2016. The policy regarding the eligibility of maintenance and repair salary is included with this report for your review. Please do not hesitate to contact Fay Kopp or Shelly Schumacher to discuss specific employer reporting questions and documentation.

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.

Dottie Thorsen  
Auditor

Enclosures



**REPORT ON COMPLIANCE AUDIT  
FOR REPORTING AND PAYMENTS  
TO THE TEACHERS' FUND FOR RETIREMENT  
ST. JOHN'S PUBLIC SCHOOL DISTRICT  
JUNE 7, 2016**

**PURPOSE**

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with RIO/TFFR Management upon completion. Independent reports are filed with the Audit Committee of the State Investment Board (SIB) quarterly. All independent reports filed with the Audit Committee of the SIB are published on the RIO website in compliance with North Dakota open records and meetings laws.

**SCOPE**

This audit is designed to test the accuracy of retirement salaries and contributions reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the employer for the 2013/14 through 2014/15 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. See *Schedule 1 - Primary Test*.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited. See *Schedule 1 - Primary Test*.

The Primary Test did not disclose any reporting procedure used by the employer that would affect a large portion of the population for fiscal years 2013/14 through 2014/15. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

**FINDINGS**

In our opinion, for the time period covered in the audit, the retirement salaries for fiscal years 2013/14 through 2014/15 reported by the St. John's Public School District are in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted.

1. The District did not report eligible in-staff substitute teaching salary for two re-employed retirees.
2. The District did not report actual hours worked by retirees who have returned to covered employment.

**RECOMMENDATIONS AND CORRECTIVE ACTION**

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is [www.nd.gov/rio/TFFR/Publications](http://www.nd.gov/rio/TFFR/Publications).

Finding 1:

The District did not report eligible in-staff substitute teaching salary for two re-employed retirees. Salary earned for in-staff substitute teaching is reportable if the re-employed retiree is under a time certain contract to perform teaching services and while under this contract performs in-staff substitute teaching duties. A time certain contract is a contract that states a specific term of employment (example: nine months, basketball season, October 1 to November 1, etc.). Two re-employed retirees were provided nine month teaching contracts by the District and performed in-staff substitute teaching during those nine months with the contracted District. The resulting salary earned was not reported to TFFR in its entirety. The error caused an underpayment of member and employer contributions. Corrections will be made to the member accounts and RIO will notify the members that adjustments have been made to their accounts. *(Please reference Schedule 1 – Primary Test and Changes in Salaries and Contributions worksheet.)*

Finding 2:

The District did not report actual hours worked by retirees who have returned to covered employment. State law allows retirees who are receiving TFFR retirement benefits to return to covered employment under certain limitations. If the retiree exceeds these limitations, TFFR must discontinue payment of retirement benefits. One such limitation which must be adhered to is the General Rule – Annual Hour Limit, retirees who returned to covered employment under the General Rule are restricted in the hours which can be worked based on the length of the contract issued. The District is required to report actual hours worked by retirees who have returned to covered employment. The District must also be aware of annual hour limitations and ensure that retirees are not exceeding those limits. Reported hours for re-employed retirees should include the number of hours the member was employed including in-staff subbing hours but excluding extra-curricular and professional development hours.

The net amount of the contributions owed by the District is \$733.47. An invoice for the net amount of contributions due is included. Please reference attached *Schedule 2 – Salary Correction Summary* for additional details. **Please provide payment for the contributions owed and a written response on the District’s intent to correct the above findings by July 8, 2016.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.



Terra L. Miller Bowley  
Supervisor of Audit Services

Enclosures

**REPORT ON COMPLIANCE AUDIT  
FOR REPORTING AND PAYMENTS  
TO THE TEACHERS' FUND FOR RETIREMENT  
WARWICK SCHOOL DISTRICT  
APRIL 22, 2016**

**PURPOSE**

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with RIO/TFFR Management upon completion. Independent reports are filed with the Audit Committee of the State Investment Board (SIB) quarterly. All independent reports filed with the Audit Committee of the SIB are published on the RIO website in compliance with North Dakota open records and meetings laws.

**SCOPE**

This audit is designed to test the accuracy of retirement salaries and contributions reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the District for the 2013/14 through 2014/15 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined (See Schedule 1 - Primary Test).

The Schedule 1 - Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited.

The Schedule 1 - Primary Test did not disclose any reporting procedure used by the District that would affect a large portion of the population for fiscal years 2013/14 through 2014/15. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

**FINDINGS**

In our opinion, for the time period covered in the audit, the retirement salaries for fiscal years 2013/14 through 2014/15 reported by the Warwick School District were not in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted.

1. The District did not report eligible after-school, coaching, contract, professional development, and summer salary for five members.
2. The District reported ineligible bus salary for two members.
3. The District reported salary in the wrong fiscal year for four members.

4. The District did not issue written agreements for summer salary.
5. The District reported service hours incorrectly for four members.
6. The District did not actively monitor the hours for two retired teachers who returned to covered employment.

## **RECOMMENDATIONS**

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is [www.nd.gov/rio/TFFR/Publications](http://www.nd.gov/rio/TFFR/Publications). TFFR can also schedule in-house training at our office in Bismarck for Warwick personnel. For more information, please contact Shelly Schumacher or Tami Volkert at 1-800-952-2970.

Software Unlimited can assist with programming issues. Contact information for the software vendors can be found on page 23 of the *TFFR Employer Guide*.

Other training recommended for District personnel: (1) TFFR personnel will be presenting a training segment on reporting to TFFR at the North Dakota Association of School Business Managers' Regional Workshops scheduled in May 2016. The tentative date for the training is May 5, 2016 in Mandan. Their website address is <http://ndasbm.com/>. (2) The North Dakota Association of School Business Managers offers a School Business Manager Certification Program. Information can be found on their website, <http://ndsbmcp.org/handbooks-and-forms/> or by contacting via email [alyssa.martin@ndsba.org](mailto:alyssa.martin@ndsba.org) regarding the program.

## **CORRECTIVE ACTION**

### Finding 1:

The District did not report eligible after-school, coaching, contract, professional development, and summer salary for five members. The five members' accounts will be corrected. This error caused a shortage of contributions. RIO will notify the members that adjustments have been made to their accounts. It is the responsibility of the District to collect the contributions owed by the member (see Schedule 1- Primary Test and the Worksheet for Changes in Salaries and Contributions). For information on salary, see the Terms and Definition section starting on page 4 of the *TFFR Employer Guide*.

### Finding 2:

The District reported ineligible busing for two members. This error resulted in an overpayment of contributions to TFFR. One member's account will be corrected. RIO will notify the member that an adjustment have been made to the account. It is the responsibility of the District to refund the contributions owed to the member (see the Schedule 1-Primary Test and the Worksheet for Changes in Salaries and Contributions). The second member's account will not be corrected because the amount overpaid was immaterial. For information on salary, see the Terms and Definition section starting on page 4 of the *TFFR Employer Guide*.

### Finding 3:

The District reported salary in the wrong fiscal year for four members. Salary is reportable in the fiscal year in which it is earned. Salary earned in 2013/14 was not reported to TFFR until the following fiscal year. When a reporting error is discovered, please notify TFFR immediately so that the correction to the member's account can be made. For part-time members, reporting the salary in the wrong year could also affect service hours. A member could be credited with too many or too few hours of service. All four member accounts will be corrected and salary will be moved to the correct fiscal year. Service hours were not affected because the four members were full time teachers (see Schedule 1-Primary Test and the Worksheet for Changes in Salaries and Contributions).

### Finding 4:

The District did not issue written agreements for summer salary. TFFR recommends that the District provide written agreements to **all** members. A written agreement can be a contract, school board minutes, or other official document evidencing a contractual relationship between a teacher and a participating employer. If written agreements are not issued to a teacher from outside the District or teachers without a continuing contract (includes the third-party agreement with the

Special Education) with the District, the salary would not be reported. For information on reporting summer salary, see page 35 of the *TFFR Employer Guide*.

Finding 5:

The District reported service hours incorrectly for four members. Three of the four member's accounts will not be corrected because they earned a full year with another District (Lake Region Teachers). One member's account will be corrected and the member will be notified about the account change (see Service Hours Corrections). For information on calculating service hours, see page 27 the *TFFR Employer Guide*.

Finding 6:

Actual service hours were not reported to TFFR for two retired teachers who returned to covered employment. The District stated they monitor the hours for retired teachers who return to teach through the contract set-up. The District did not have established procedures for actively monitoring service hours. State law allows retirees who are receiving TFFR retirement benefits to return to covered employment under certain limitations. If the retirees exceed the limitations, TFFR must discontinue payment of retirement benefits. The District is required to report actual hours worked by retirees who have returned to covered employment to TFFR. It is recommended that the District establish procedures to monitor retirees who have returned to covered employment to ensure proper reporting of hours and salary. The process and procedures for reporting a retired teacher can be found on page 31 of the *TFFR Employer Guide*. Examples of salary where hours are reportable: contract, additional days, in-staff subbing, summer, and after-school salary. Extra-curricular and professional development service hours are not reported (please note that the salary is reportable). No correction will be made to the two accounts because the actual hours did not exceed the maximum allowable hours.

**The amount of contributions due from the District is \$2,389.80 (See Schedule 2-Salary Correction Summary).** The bill for the amount due will be sent to the Business Manager. **Please provide the contributions due and a written response on the District's intent to correct the above errors in future reporting to TFFR by June 1, 2016.**

When an employer is not in compliance, it is the policy of Audit Services to follow-up and review a sample of salaries that have been reported to TFFR after the audit period to ensure that reporting procedures have been corrected. Therefore, we will be reviewing salaries again during fiscal year 2017/18.

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.

Dottie Thorsen  
Auditor

Enclosures

Audit Services – North Dakota Retirement and Investment Office  
**TFFR File Maintenance Audit**  
**October 1, 2015 – December 31, 2015**  
**Final Audit Report**  
 May 13, 2016

**Background**

On a quarterly basis, Audit Services of the Retirement and Investment Office (RIO) reviews system generated (CPAS) audit tables to ensure transactions initiated by staff are expected and appropriate given an individual's role within the organization. The accuracy of month end reporting of lump sum payments and installment purchases of service credit is also verified along with the updating of contact and demographic information on member accounts. This review is a part of Audit Services continuous monitoring activities.

**Results Summary**

Audit Services determined that audit table transactions which occurred in the second quarter of fiscal year 2015/2016 for all user IDs were expected and appropriately based on the organizational role held by the individual who initiated the transactions. There was one procedural exception (see Phase I). Month end reporting of lump sum payments and installment purchases of service credit was accurate. The staff of Retirement Services adhered to established procedures for the processing of purchases, refunds, and rollovers with one exception (See Phase II). Actuarially significant contact and demographic information on member accounts was updated and documentation was retained on FileNet.

**Scope**

Audit information is obtained throughout the quarter under review. System generated audit table reports are run quarterly by Audit Services staff. Staff roles and responsibilities and departmental procedures are verified at least annually and as needed throughout the year with Division management. System generated reports of lump sum payments and installment purchases of service credit are provided monthly by the Information Services Division which also provides a listing of system User IDs, security roles, and any changes to either on a yearly basis. Each staff member within the Information Systems Division also provides a change documentation log which details transactions completed and who requested each transaction. Member Action Forms (SFN 50981 5-14) are collected in the first quarter of each fiscal year with the assistance of the Office Assistant. Actual audit work normally commences the month following the end of each quarter.

- Phase I –
  - Review audit table reports for all CPAS User IDs which have listed transactions.
  - Identify transactions and investigate further any transactions which do not appear to be usual and customary.
- Phase II –
  - Review accuracy of month end reporting of lump sum payments and installment purchases of service credit.
  - Sample selection and testing of the processing of purchases, refunds, rollovers, and partial lump sum options (PLSO) determining level of adherence to established procedures.
- Phase III –
  - Sample selection and testing of member account updates to contact and demographic information.

**Observations, Conclusions and Recommendations**

**Observations, Conclusions and Recommendations Phase I**

CPAS generated audit tables transactions initiated by staff, each of whom is assigned a unique user ID. The transactions are related to the day to day business operations of the Teachers' Fund for Retirement (TFFR). Audit Services staff reviews transactions for appropriateness based on the organizational role of the individual assigned to each user ID. Any transactions which do not appear to be usual and customary are investigated further.

- There were twenty-eight unique user IDs that are authorized to access CPAS.
- Nine user IDs had transactions initiated by staff or employers.
- Further investigation was required on seven transactions.

Audit Services determined that audit table transactions which occurred in the second quarter of fiscal year 2015/2016 for all user IDs were expected and appropriate based on the organizational role held by the individual who initiated the transactions. Audit Services also determined that actuarially significant contact and demographic information on member accounts was updated and documentation was retained on FileNet. The following finding was noted:

- A social security number (SSN) and two death dates for beneficiaries (not in payment) were updated without documentation to CPAS or FileNet. The Retirement Program Manager (RMP) stated the change to the SSN may have been triggered by a phone call from the retiree. The beneficiary's SSN was incorrect on CPAS, but was adjusted to reflect the correct SSN on the Beneficiary Form in FileNet. For the future, she reminded the staff member that changes to social security numbers and birthdates require some form of documentation. The two death dates for beneficiaries that were posted to CPAS were found in the search of obituaries.

**Recommendation:** Notes should be placed on the three accounts in CPAS noting that there are no documents on file for the above transactions.

**Retirement Service's Response:** It is Retirement Service's practice to add a note to CPAS if a SSN or birthdate is changed in CPAS, but the note on the SSN change was missed on this one transaction. The Membership Specialist was reminded to always add a note to CPAS if an existing SSN or birthdate is updated in the CPAS database. A note was added to the Member's account on CPAS. As deaths are discovered on beneficiaries not in payment, if the date of death is added to CPAS, Retirement Services will begin to scan a copy of the obituary in FileNet. For the two found during this audit, a CPAS note was added to the two deceased beneficiaries.

### **Observations, Conclusions and Recommendations Phase II**

The NDRIO Lump Sum Payment Register lists all refunds, rollovers, and PLSOs paid to members each month. The TFFR Installment Purchase of Credit report lists the current status each month of all the in-progress installment purchases of service credit. Audit Services verifies that the entries on these two system generated reports correspond to a transaction on an audit table.

- Each entry on the NDRIO Lump Sum Payment Register was matched to a corresponding transaction on a table report for the second quarter of fiscal year 2015/2016.
- Each entry on the TFFR Installment Purchase Report was matched to a corresponding transaction on a table report for the second quarter of fiscal year 2015/2016.

Additional testing was completed on two entries selected from the NDRIO Lump Sum Payment Register. This included one member initiated account refund and one refund resulting from the death of a member.

There were no PLSO's payments processed due to a retirement during this time period. Additional testing was completed on one entry selected from the TFFR Installment of Purchase Credit Report. This included an installment purchase for air time service credit. For all three sample entries selected:

- Entries were handled per procedures established by Retirement Services – Refund Eligibility Procedures, Purchase of Service Credit Procedures, and Obtaining Death Certificate Procedures.
- Required supporting documentation was located on FileNet- **exception noted**.
- Corresponding system process (Termination/Refund, Death, and Purchase of Service) was located on CPAS under the individual member accounts.
- No discrepancies were identified between required supporting documentation and CPAS system information.

Audit Services determined that month end reporting of lump sum payments and installment purchases of service credit was accurate. The staff of Retirement Services adhered to established procedures for the processing of purchases, refunds, and rollovers except for one procedure in the process of a refund due to the death of a member.

- After a death is processed by the Retirement Program Specialist, the folder with documents is sorted and organized by the Membership Specialist. The sorted packet is then passed to Administrative Services to scan to FileNet. The signed Survivor Enrollment/refund forms from the beneficiary were not found on FileNet. The Retirement Program Specialist checked her records for the date the information was scanned to FileNet. After looking at the scanning packet for that day, we found that the forms were not included the packet.

**Recommendation:** A note should be placed on the above account in CPAS and FileNet noting that the Survivor Enrollment/Refund forms were not retained for the above transaction.

**Retirement Service's Response:** A retired member died under the Single Life Annuity option. The beneficiary sent the appropriate documents to TFFR and the death was processed and the remaining account value was paid. When the account was closed, the Survivor Enrollment form and the Refund application was not included in the packet to scan to FileNet. The scanned documents for that day as well as a few days before and after were reviewed to ensure the documents were not scanned to wrong account. It appears the two documents were discarded in error. A memo has been scanned to the retiree's account explaining the situation. An attempt to contact the beneficiary was made in order to obtain a copy of the documents. There has not been a response.

### **Observations, Conclusions and Recommendations Phase III**

Member Action Forms (MAF) are submitted to TFFR by members who are updating their status with the pension fund. For example a member may be enrolling in TFFR, returning to covered employment after a period of inactivity, or changing/adding a participating employer. Members can also designate or update a beneficiary via a Member Action Form. For the seven sample forms selected:

- Five member accounts were updated correctly and the MAF's were properly uploaded and retained in FileNet.



- One member's account on CPAS had a different address than the address listed on the MAF. The Retirement Program Manager (RPM) stated the member's address from the District overrides the address on the MAF.
- The last MAF dated 8/19/2015 was not scanned to the member's FileNet account. A MAF received 9/13/2015 was scanned to the account. The information on both forms was the same. The form dated 8/19/2015 was thrown away. Also, the member did not update his beneficiary except to say the name was on file. The last MAF to list the beneficiary by name was dated 9/22/2008. The RPM stated that an updated Beneficiary section of the MAF form is not required unless the member is new or the member returns to covered employment after a refund.

**Recommendation:** A note should be placed on the CPAS account explaining why the address is different on CPAS and the MAF.

**Retirement Service's Response:** The Membership Specialist will add a note to the MAF if the address is not updated in CPAS on a new member when the address on the MAF is no longer valid and the correct address was reported on the employer report and automatically updated the member record in CPAS. The Membership Specialist in these cases will have contacted the employer to double check the address that was included on the employer report to make sure this is the most current address.

Audit Services determined that actuarially significant contact and demographic information on member accounts was updated and documentation was retained on FileNet.

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**Distribution:**

David Hunter, Executive Director/CIO  
Fay Kopp, Deputy Executive Director/Chief Retirement Officer  
Shelly Schumacher, Retirement Program Manager  
Connie Flanagan, Fiscal and Investment Operations Manager  
Rich Nagel, Supervisor of Information Systems

Audit Services – North Dakota Retirement and Investment Office

**TFFR File Maintenance Audit**

**January 1, 2016 – March 31, 2016**

**Final Audit Report**

June 30, 2016

**Background**

On a quarterly basis, Audit Services of the Retirement and Investment Office (RIO) reviews system generated (CPAS) audit tables to ensure transactions initiated by staff are expected and appropriate given an individual's role within the organization. The accuracy of month end reporting of lump sum payments and installment purchases of service credit is also verified along with the updating of contact and demographic information on member accounts. This review is a part of Audit Services continuous monitoring activities.

**Results Summary**

Audit Services determined that audit table transactions which occurred in the third quarter of fiscal year 2015/2016 for all user IDs were expected and appropriate based on the organizational role held by the individual who initiated the transactions. Month end reporting of lump sum payments and installment purchases of service credit was accurate. The staff of Retirement Services adhered to established procedures for the processing of purchases, refunds, and rollovers. Actuarially significant contact and demographic information on member accounts was updated and documentation was retained on FileNet. One procedural error occurred (see Phase 3).

**Scope**

Audit information is obtained throughout the quarter under review. System generated audit table reports are run quarterly by Audit Services staff. Staff roles and responsibilities and departmental procedures are verified at least annually and as needed throughout the year with Division management. System generated reports of lump sum payments and installment purchases of service credit are provided monthly by the Information Services Division which also provides a listing of system User IDs, security roles, and any changes to either on a yearly basis. Each staff member within the Information Systems Division also provides a change documentation log which details transactions completed and who requested each transaction. Member Action Forms (SFN 50981 5-14) are collected in the first quarter of each fiscal year with the assistance of the Office Assistant. Actual audit work normally commences the month following the end of each quarter.

- Phase I –
  - Review audit table reports for all CPAS User IDs which have listed transactions.
  - Identify transactions and investigate further any transactions which do not appear to be usual and customary.
- Phase II –
  - Review accuracy of month end reporting of lump sum payments and installment purchases of service credit.
  - Sample selection and testing of the processing of purchases, refunds, rollovers, and partial lump sum options (PLSO) determining level of adherence to established procedures.
- Phase III –
  - Sample selection and testing of member account updates to contact and demographic information.

**Observations, Conclusions and Recommendations**

**Observations, Conclusions and Recommendations Phase I**

CPAS generated audit tables record transactions initiated by staff, each of whom is assigned a unique user ID. The transactions are related to the day to day business operations of the Teachers' Fund for Retirement (TFFR). Audit Services staff reviews transactions for appropriateness based on the organizational role of the individual assigned to each user ID. Any transactions which do not appear to be usual and customary are investigated further.

- There were twenty-eight unique user IDs that are authorized to access CPAS.
- Eight user IDs had transactions initiated by staff or employers.
- Further investigation was required on twelve transactions.

After further investigation of the above transactions, Audit Services determined that audit table transactions which occurred in the third quarter of fiscal year 2015/2016 for all user IDs were expected and appropriate based on the organizational role held by the individual who initiated the transactions. Audit Services also determined that actuarially significant contact and demographic information on member accounts was updated and documentation was retained on FileNet.

In the third quarter, a staff member posted beneficiary information to CPAS without documentation. This error also was noted in the second quarter report, dated 5/13/2016. Due to limited resources within Audit Services following the second quarter, the TFFR File Maintenance audits for the second and third quarter were completed simultaneously. Therefore, Retirement Services was not provided adequate time to facilitate corrective action for this error. The error is simply noted here for informational purposes.

Following the second quarter TFFR File Maintenance Audit, Retirement Services developed procedures for posting information to CPAS and FileNet going forward. The staff member also made copies of the documents needed and scanned them to FileNet for the affected accounts identified in the second and third quarters.

### **Observations, Conclusions and Recommendations Phase II**

The NDRIO Lump Sum Payment Register lists all refunds, rollovers, and PLSOs paid to members each month. The TFFR Installment Purchase of Credit report lists the current status each month of all the in-progress installment purchases of service credit. Audit Services verifies that the entries on these two system generated reports correspond to a transaction on an audit table.

- Each entry on the NDRIO Lump Sum Payment Register was matched to a corresponding transaction on a table report for the third quarter of fiscal year 2015/2016.
- Each entry on the TFFR Installment Purchase Report was matched to a corresponding transaction on a table report for the third quarter of fiscal year 2015/2016.

Additional testing was completed on three entries selected from the NDRIO Lump Sum Payment Register. This included a member initiated account refund/rollover, retirement/partial lump sum option refund, and one refund resulting from the death of a member. Additional testing was completed on one entry selected from the TFFR Installment of Purchase Credit Report. This included an installment purchase for refunded time. For the four sample entries selected:

- Entries were handled per procedures established by Retirement Services – Refund Eligibility Procedures, Purchase of Service Credit Procedures, and Obtaining Death Certificate Procedures.
- Required supporting documentation was located on FileNet.

- Corresponding system process (Termination/Refund, Partial Lump Sum calculation, Death, and Purchase of Service) was located on CPAS under the individual member accounts.
- No unexplainable discrepancies were identified between required supporting documentation and CPAS system information.

Audit Services determined that month end reporting of lump sum payments and installment purchases of service credit was accurate. The staff of Retirement Services adhered to established procedures for the processing of purchases, refunds, and rollovers.

**Observations, Conclusions and Recommendations Phase III**

Member Action Forms (MAF) are submitted to TFFR by members who are updating their status with the pension fund. For example a member may be enrolling in TFFR, returning to covered employment after a period of inactivity, or changing/adding a participating employer. Members can also designate or update a beneficiary via a MAF. For the six sample forms selected:

- Four member accounts were updated correctly and the MAF's were properly uploaded and retained in FileNet.
- One member's name was spelled wrong.

Finding: A Member Action Form was scanned to FileNet without the required member signature.

Response: The Retirement Program Manager stated that the staff member notified the member about the unsigned form. A signed form has been received and was scanned to FileNet on 6/23/2016.

Audit Services determined that actuarially significant contact and demographic information on member accounts was updated and documentation was retained on FileNet.

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**Distribution:**

David Hunter, Executive Director/CIO  
Fay Kopp, Deputy Executive Director/Chief Retirement Officer  
Shelly Schumacher, Retirement Program Manager  
Connie Flanagan, Fiscal and Investment Operations Manager  
Rich Nagel, Supervisor of Information Systems



NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE  
 TFFR EMPLOYER AUDIT PROGRESS AND STATUS REPORT  
 THIRD AUDIT CYCLE

FISCAL YEAR JULY 1, 2016 - JUNE 30, 2017

NOT IN COMPLIANCE (NIC) REVIEWS

	Size	Auditor	School District	100% or On-site	Info Request	Info Received	Review Started	Report Date	Corrections to Retirement Services	Invoice/Check Received from Retirement Services	Status	Members	Days b/w Info Request and Received	Days b/w Info Received and Report	Days b/w Info Received & Start Date	Days b/w Start and Report	Days w/Retirement Services	Audit Findings	Hours to Complete		
1	S	TMB	Halliday		2/26/2015	3/4/2015	N/A	N/A	N/A	N/A	N/A	11	N/A	N/A	N/A	N/A	N/A	See Explanation Below	N/A		
2	S	DT	McClusky		12/11/2014	12/23/2014	1/26/2015	3/12/2015	N/A	N/A	Complete	18	12	79	34	45	N/A	In Compliance	36		
5	L	DT	Williston		1/7/2014	1/29/2014	4/14/2014	1/29/2015	1/14/2015	1/22/2015	Complete	217	22	365	75	290	8	Not In Compliance	130		
3	S		Ft. Yates																		
***TFFR Compliance Audit Scheduled for 2015-2016***																					
END FISCAL YEAR 2014-2015																					
4	S	TMB	Minnewaukan		3/3/2015	3/25/2015	3/27/2015	8/11/2015	7/16/2015	8/10/2015	Complete	36	22	139	2	137	25	Not In Compliance	43		
												Average:									







NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE  
 TFFR EMPLOYER AUDIT PROGRESS AND STATUS REPORT  
 FOURTH AUDIT CYCLE

FISCAL YEAR JULY 1, 2016 - JUNE 30, 2017

FOURTH AUDIT CYCLE START DATE: May 23, 2016

FOURTH AUDIT CYCLE END DATE:

	Size	District ID	Auditor	Employer	Anticipated Notification Timeframe	100% or On-site	Info Request	Info Received	Audit Started	Report Date	Corrections to Retirement Services	Invoice/Check Received from Retirement Services	Status	Members	Days b/w Info Request and Received (Business Days)	Days b/w Info Received and Report (Business Days)	Days b/w Info Received and Start Date (Business Days)	Days b/w Start and Report (Business Days)	Days w/Retirement Services (Business Days)	Audit Findings	Hours to Complete		
160	S	02-200		SHEYENNE VALLEY AREA VOC											0	0	0	0	0				
161	S	23-724		JAMES RIVER MULTIDISTRICT SPEC ED UNIT											0	0	0	0	0				
162	S	36-044		STARKWEATHER SCHOOL											0	0	0	0	0				
163	S	50-005		FORDVILLE LANKIN SCHOOL											0	0	0	0	0				
164	S	53-200		WILMAC SPECIAL EDUCATION											0	0	0	0	0				
165	S	51-161		LEWIS AND CLARK SCHOOL											0	0	0	0	0				
166	S	23-007		KULM SCHOOL											0	0	0	0	0				
167	L	09-001		FARGO PUBLIC SCHOOLS											0	0	0	0	0				
168	S	09-400		ND CENTER FOR DISTANCE EDUCATION											0	0	0	0	0				
169	S	03-030		FORT TOTTEN SCHOOL											0	0	0	0	0				
170	S	31-003		PARSHALL SCHOOL**	2017-2018										0	0	0	0	0				
171	S	39-200		SE REGION CAREER AND TECH											0	0	0	0	0				
172	S	43-003		SOLEN - CANNONBALL SCHOOL											0	0	0	0	0				
173	S	40-003		ST. JOHN'S SCHOOL											0	0	0	0	0				
174	S	03-029		WARWICK SCHOOL**	2017-2018										0	0	0	0	0				
175	S	28-085		WHITE SHIELD SCHOOL											0	0	0	0	0				
														Average:	33	37	148	54	40	6			18

\*\*WARWICK SCHOOL - Found Not In Compliance 2016. Audit years were 2013-2014 and 2014-2015. Will need NIC Review at conclusion of FY 2017.

\*\*PARSHALL SCHOOL - Found Not In Compliance 2016. Audit years were 2013-2014 and 2014-2015. Will need NIC Review at conclusion of FY 2017.

\*\*GLEN ULLIN SCHOOL - Found Not In Compliance 2015. Audit years were 2014-2015 to 2011-2012. Will need NIC Review at conclusion of FY 2016.

\*\*MAPLETON ELE SCHOOL - At the request of Retirement Services will need audit completed on FY 16 and FY 17 reported salaries and contributions. Audit at conclusion of FY 2017.

\*VELVA SCHOOL - Audit notification October 2015, partial information received November 2015, remaining information received June 2016, unable to begin audit until all information received.

\*FORT YATES SCHOOL - Audit notification October 2015, partial information received November 2015, remaining information received June 2016, unable to begin audit until all information received.

\*POWERS LAKE SCHOOL - Audit notification October 2016, partial information received June 2016, remaining information received July 2016, unable to begin audit until all information received.

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE  
AUDIT SERVICES**

**TFFR EMPLOYER COMPLIANCE AUDITS**

JULY 1, 2015 TO JUNE 30, 2016

		EMPLOYER	FISCAL YEARS	TOTAL MEMBERS	REPORT DATE	EMPLOYER CONTRIB'S DR(CR)	MEMBER SALARY ADJUSTED	MEMBER SERVICE CREDIT ADJUSTED	STATUS	
		2016 Fiscal Year End:								
									In Compliance	
									13	
									Generally in Compliance	
									7	
✓									Audit Completed - (21)	
✓									Not in Compliance (NIC)	
									2	
									<u>22</u>	
1	✓	TMB	Billings County School District	6/30/2014, 13	18	8/18/2015	(\$172.63)	1	1	Generally in Compliance The Employer reported summer salary in the wrong fiscal year and reported service hours incorrectly.
2	✓	Intern	Bowman	6/30/2014, 15	15	6/16/2016	\$0.00	0	1	In compliance The Employer reported service hours incorrectly and did not issue written agreements for summer salary.
3	✓	TMB	Dickinson	6/30/2014, 13	332	8/26/2015	(\$203.25)	2	8	Generally in Compliance The Employer reported contract salary and hours without a written agreement, summer salary was reported in the wrong fiscal year, service hours were reported incorrectly, summer agreements were not issued for one member, and the hours of retired teachers who have returned to covered employment are not monitored.
4	✓	TMB	Emerado	6/30/2014, 13	22	7/20/2015	\$4,449.16	3	3	Generally in Compliance The Employer reported contract salary incorrectly, did not report eligible teachers salary/service, and reported service hours incorrectly.
5	✓	TMB	Fargo Amended report	6/30/2014, 13	1333	10/19/2015 1/11/2016	(\$640.89)	3	2	Generally in Compliance The Employer reported ineligible salary- cell phone payment, reported salary in the wrong fiscal year, did not report eligible salary - continuing education, reported salary without a written agreement; reported summer salary without a written agreement for Administrators, and reported service hours incorrectly.
6	✓	DT	Fordville-Lankin Amended report	6/30/2014, 13	12	12/28/2015 1/27/2016	(\$73.43) \$73.43	1 1	0 0	In Compliance Did not report eligible in-staff subbing and after school salary, overpaid driver's education salary, and did not monitor hours for a retired teacher who returned to covered employment.
7	✓	TMB	James River Multi-District	6/30/2014, 13	20	8/18/2015	\$0.00	0	0	In Compliance The Employer reported an insurance reimbursement in error.

8	✓	TMB	Kulm	6/30/2014, 13	22	10/2/2015	\$187.87	1	1	In Compliance The Employer did not report the correct contract salary and reported service hours incorrectly.
9	✓	DT	Litchville-Marion	6/30/2014, 13	28	12/17/2015	\$0.00	0	1	In Compliance Service hours reported incorrectly
10	✓	TMB	Maple Valley	6/30/2014, 13	38	10/21/2015	(\$23,475.67)	2	1	Generally in Compliance The Employer reported salary without a written agreement, reported an ineligible member, and reported service hours incorrectly.
11	✓	TMB	Minnewaukan Not in Compliance Review		36	8/11/2015	\$903.52	4	0	Not in Compliance The Employer reported summer salary in the wrong fiscal year, did not report extra-curricular salary, reported contract salary incorrectly, did not issue written agreements for summer salary, did not monitor hours for retired teachers who returned to covered employment and one teacher had a license that had lapsed.
12	✓	TMB	New Public School	6/30/2014, 13	57	8/26/2015	(\$2,310.02)	1	2	In Compliance The Employer reported salary and service hours with a written agreement; service hours reported incorrectly, and did not issue written agreements for part-time and summer school teachers.
13	✓	DT	North Valley Area Careers	6/30/2014, 13	11	5/6/2016	(\$32.63)	2	0	In compliance Reported salary in the wrong fiscal year; reported service hours incorrectly for a retired teacher who returned to teach under covered employment.
14	✓	TMB	Parshall	6/30/2014, 15	35	6/28/2016	\$4,223.40	16	1	Not in compliance Employer did not report eligible salary -IT, contract, professional development; reported ineligible salary-ticket-taking, score-keeping, line-judging, referee and tournament; reported service hours incorrectly for active and re-employed retirees; did not issue written agreements for summer salary; salary reported in the wrong fiscal year; and overpaid salary
15	✓	TMB	Solen-Cannonball	6/30/2014, 15	29	6/7/2016	\$0.00	0	1	In Compliance The Employer did not report eligible salary for a re-employed retiree; did not actually monitor the hours for re-employed retiree; and reported service hours incorrectly for a part-time member.
16	✓	DT	Southeast Region Career and Tech	6/30/2014, 13	32	6/6/2016	(\$220.33)	4	3	Generally in compliance Reported summer salary in the wrong fiscal year; did not issue written agreements for STEM summer salary; and reported service hours incorrectly.
17	✓	TMB	Starkweather	6/30/2014, 15	14	12/3/2015	(\$730.84)	2	1	In Compliance The Employer reported salary/service hours without a written agreement, reported contract salary after deductions, and reported service hours incorrectly.
18	✓	TMB	St. John	6/30/2014, 15	42	6/7/2016	\$733.47	2	0	In Compliance The Employer did not report eligible in-staff subbing for re-employed retirees; did not report actual hours worked by retirees who have returned to covered employment.

19	✓	DT	Warwick	6/30/2014, 15	31	4/22/2016	\$2,389.80	6	1	Not in compliance Employer did not report eligible contract/extra-curricular salary; reported ineligible bus salary; salary reported in the wrong fiscal year; did not issue written agreements for summer salary; error in reporting service hours; and the District did not actively monitor the hours for retired members who have returned to covered employment
20	✓	DT	West Fargo	6/30/2014, 13	875	11/16/2015	(\$523.81)	5	9	Generally in Compliance Reported summer salary in the wrong fiscal year, did not issue written agreements for summer salary, and reported service hours incorrectly.
21	✓	TMB	Wilmac Special Education	6/30/2014, 13	58	10/19/2015	\$0.00	0	0	In Compliance Did not issue written agreements for summer salary.
22	✓	DT	Wing	6/30/2014, 15	19	12/17/2015	\$0.00	0	0	In Compliance Did not have written agreements for summer salary and service hours reported incorrectly for a retired member who returned to covered employment.
<b>Totals</b>					<u>3,079</u>		<u>(\$15,422.85)</u>	<u>56</u>	<u>36</u>	

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE  
AUDIT SERVICES DIVISION  
BUDGETED VS. ACTUAL HOURS FOR FISCAL YEAR 2015-2016**

	2015-2016 BUDGET HOURS (2 FTE'S)
<b>1. Audit</b>	
<b>Retirement Program Audits:</b>	
TFFR Employer Compliance Audits	1,890
REA Audit(s)	75
Benefit Payments Audit	50
TFFR File Maintenance Audit(s)	80
Annual Salary Verification Project	65
TFFR Cost Effective Benefit Payments/Benefit Recalculation	80
<b>Agency Administrative and Investment Audits</b>	
Executive Limitation Audit	90
Investment Performance Summary Review	60
Schedule of Investment Fees Review	60
Investment Management Fees Review	60
RIO External Auditor Assistance	40
Special Projects	120
<b>Total Audit Hours:</b>	<b>2,670</b>
<b>2. Administrative</b>	
Administrative - Staff Mtgs, Time Reports, Email, Records Retention, General Reporting	400
Audit Committee/SIB/TFFR Attendance and Preparation	250
Professional Development/CE/General Education	160
Audit Services Procedure Manual	120
Annual Leave, Sick Leave, and Holidays	592
<b>Total Administrative Hours:</b>	<b>1,522</b>
<b>Total Hours for 2015-2016:</b>	<b>4,192</b>

Total Hours for 2015-2016: 4,192  
D. Thorsen Total Hours 2015-2016: 2,096  
T. Miller Bowley Hours 2015-2016: 2,096

1st Quarter Actual Hours	2nd Quarter Actual Hours	3rd Quarter Actual Hours	4th Quarter Actual Hours	2015- 2016 Actual Hours	Actual vs. Budgeted Hours Over/(Under)
522	601	395	359	1,877	(13)
8	4	8	0	19	(56)
126	0	0	3	129	79
57	45	53	189	343	263
0	0	121	4	125	60
0	0	0	10	10	(71)
6	40	59	13	117	27
0	11	2	0	13	(47)
0	0	0	0	0	(60)
0	0	0	0	0	(60)
16	4	0	2	21	(19)
0	0	0	0	0	(120)
734	704	638	578	2,654	(16)
128	121	139	281	669	269
72	53	55	58	237	(13)
7	43	14	49	113	(48)
7	10	0	8	25	(96)
111	132	196	71	509	(83)
325	359	402	466	1,552	30
<b>1,059</b>	<b>1,063</b>	<b>1,040</b>	<b>1,045</b>	<b>4,206</b>	<b>14</b>
25%	51%	75%	100%		

## MEMORANDUM

**TO:** State Investment Board (SIB)

**FROM:** Rebecca Dorwart, SIB Audit Committee Chair

**DATE:** September 23, 2016

**SUBJECT:** Fiscal Year End Audit Committee Activities Update  
July 1, 2015 to June 30, 2016

The Audit Committee is a standing committee of the State Investment Board (SIB) authorized under the SIB Governance Policy B-6, Standing Committees. Its primary function is to assist the SIB in fulfilling its oversight responsibilities of the Retirement and Investment Office (RIO) internal and external audit programs, including the financial reporting process, internal controls, and compliance with laws, regulations, policies, and procedures.

Members of the Audit Committee for the 2015-2016 fiscal year were: Rebecca Dorwart, Chair; Mike Gessner, Vice Chair/SIB Liaison representing the Teachers' Fund For Retirement (TFFR) Board; Karol Riedman, Health Dept.; Mike Sandal, representing the Public Employees Retirement System (PERS) Board; and Cindy Ternes, designee from Workforce Safety & Insurance representing elected and appointed officials. The Audit Committee held four regular meetings during the fiscal year ended June 30, 2016.

Activities of the Audit Committee during the past year included:

- The Committee approved a July 1, 2015 through June 30, 2016 Audit Service work plan. Progress was monitored on a quarterly basis. Audit activities included:
  - Twenty-two employer audits including twenty-one TFFR Compliance Audits and one Not In Compliance (NIC) Review. Compliance with the definition of salary as it appears in NDCC 15-39.1-04(9) is reviewed along with service hours and eligibility.
  - Four TFFR File Maintenance Audits were completed. Changes made to TFFR member account data by RIO employees are reviewed.
  - Annual Benefit Payment Audit was completed. Deaths, purchases of service, refunds, long outstanding checks, and long term annuitants are reviewed to ensure that established policies and procedures are being adhered to.
  - Annual Salary Verification Project was completed. Salaries and contributions reported to TFFR for the prior fiscal year for fifty randomly selected member accounts are verified.
  - Executive Limitations Audit was completed. Determined Executive Director/CIO level of compliance with SIB Governance Manual Executive Limitation policies (A-1 through A-11) for the calendar year ending December 31, 2015

- The Committee received the results of the RIO financial audit for the fiscal year ended June 30, 2015 from independent auditors, CliftonLarsonAllen, LLP. They issued an unqualified opinion.
- The Committee reviewed the RIO financial audit plan for fiscal year ended June 30, 2016 with independent auditors, CliftonLarsonAllen, LLP. Discussion included scope and approach for the audit to ensure complete coverage of financial information and review and approval of the Final GASB 68 Schedule Audit Report.
- The Committee adopted a detailed audit work plan, budgeted hours, and TFFR employer risk assessment for fiscal year July 1, 2016 to June 30, 2017.
- The Committee adopted a revised Audit Charter which was subsequently approved by the State Investment Board in May 2016.

The above activities support the Committee's fulfillment of its oversight responsibilities. Please inform the Committee if there are special audits or activities the Board would like to have reviewed.

**RETIREMENT AND INVESTMENT OFFICE  
AUDIT SERVICES  
2016 - 2017 1<sup>st</sup> Quarter Audit Activities Update  
July 1, 2016 – August 26, 2016**

The audit objective of Audit Services is twofold: first, to provide comprehensive, practical audit coverage of the Retirement and Investment Office (RIO) programs; second, to assist RIO management and the State Investment Board (SIB) by conducting special reviews or audits.

Audit coverage is based on the July 1, 2016 through June 30, 2017 work plan approved by the SIB Audit Committee. The audit activities undertaken are consistent with the Audit Services charter and goals, and the goals of RIO. To the extent possible, our audits are being carried out in accordance with the International Standards for the Professional Practice of Internal Auditing. Audit effort is being directed to the needs of RIO and the concerns of management and the SIB Audit Committee.

**Retirement Program Audit Activities**

• **TFFR Compliance Audits and Not In Compliance (NIC) Reviews**

We examine employer reporting to the Teachers' Fund for Retirement (TFFR) to determine whether retirement salaries and contributions reported for members of TFFR are in compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). Other reporting procedures reviewed during the audit process are calculation of service hours and eligibility for TFFR membership. A written report is issued after each audit examination is completed.

Current status of TFFR employer audits as of August 26, 2016:

- Five (5) TFFR Compliance Audits had been completed.
- Nine (9) TFFR Compliance Audits were in progress.
- Five (5) TFFR Compliance Audits were pending but not yet started.
  - Two TFFR Compliance Audits in the third audit cycle are in progress, Ft. Totten Public School District and White Shield Public School District.
  - All remaining pending and in progress audits are in the fourth audit cycle which began in May 2016.
- One (1) special audit is currently underway on the Parshall Public School District.
  - Audit Services and Retirement Services staff have significant concerns regarding the accuracy of reporting from the Parshall Public School District following the completion of a TFFR Compliance Audit in June 2016 and year-end closing activities.
  - Audit Services is currently reconciling the salary, employee contributions, and employer contributions reported to TFFR for 2015-2016 for twenty-two individuals.
  - The special audit will be concluded as soon as possible in an effort to correct current and future reporting errors.

This is an area that requires special emphasis due to the level of risk identified through previous audit results. Our long-range plans include auditing each employer over an eight year period.

• **Benefits Payments Audit**

A review of deaths, purchases of service, refunds, long outstanding checks, and long term annuitants was completed to determine that established policies and procedures were being followed by the staff of Retirement Services. The 2015-2016 Benefit Payments Audit was completed on August 26, 2016 no findings were noted, two recommendations for future actions were provided.

• **TFFR Cost Effective Benefit Payments/Benefit Recalculation Audit**

The start of the TFFR Cost Effective Benefit Payments/Benefit Recalculation Audit was delayed. The audit was not completed in fiscal year 2016 as planned and has been carried over to be completed in fiscal year 2017. The audit is currently underway.



### **Administrative and Investment Audit Activities**

- **Executive Limitation Audit**

Each year the SIB conducts a customer satisfaction survey. The purpose of this annual survey is to determine how well the SIB, through the staff of the RIO, is meeting the expectations of its clients. This survey is part of the SIB's ongoing effort to be more responsive to the needs of their clients and to continually improve the services that are provided. Audit Services facilitated the survey in July 2016 and results will be provided to the SIB in October 2016.

- **External Audit Support**

Audit Services is providing support to our external audit partners, CliftonLarsonAllen (CLA), during the annual financial audit of the RIO which is currently underway. Audit Services notified seventeen employers of upcoming GASB 68 Census Data audits in August 2016. The GASB 68 Census Data audits are currently underway and requests for supporting documentation have been sent to selected employers.

### **Audit Services/Retirement Services Internship Program**

The internship program concluded on August 19, 2016. The Supervisor of Audit Services and the Retirement Program Manager provided ongoing support and assistance to the intern throughout July and August.

### **Professional Development/CE/General Education**

The Supervisor of Audit Services completed the requirements for a Certified Internal Auditor (CIA) designation in July 2016.

### **Summary**

Audit effort is directed to activities that are of greatest concern to the SIB Audit Committee, RIO Management, and our external audit partners. Audit Services will continue to work closely with the SIB Audit Committee, RIO Management, and our external audit partners to continue to improve overall efficiency, effectiveness, and economy of total audit activity.

**REPORT ON COMPLIANCE AUDIT  
FOR REPORTING AND PAYMENTS  
TO THE TEACHERS' FUND FOR RETIREMENT  
BARNES COUNTY NORTH PUBLIC SCHOOL DISTRICT  
July 28, 2016**

**PURPOSE**

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with RIO/TFFR Management upon completion. Independent reports are filed with the Audit Committee of the State Investment Board (SIB) quarterly. All independent reports filed with the Audit Committee of the SIB are published on the RIO website in compliance with North Dakota open records and meetings laws.

**SCOPE**

This audit is designed to test the accuracy of retirement salaries and contributions reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the employer for the 2013/14 through 2014/15 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. Please reference the worksheet labeled *Primary Test* for additional information.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited.

The Primary Test did not disclose any reporting procedure used by the employer that would affect a large portion of the population for fiscal years 2013/14 through 2014/15. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

**FINDINGS**

In our opinion, for the time period covered in the audit, the retirement salaries for fiscal years 2013/14 through 2014/15 reported by the Barnes County North Public School District are in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted.

1. The employer incorrectly reported service hours for one retiree who has returned to covered employment.
2. The employer failed to report eligible professional development stipend for one member.
3. The employer failed to report eligible in-staff subbing salary for two retirees who have returned to covered employment.
4. The employer failed to report eligible coaching bonus for retiree who has returned to covered employment.

**RECOMMENDATIONS AND CORRECTIVE ACTION**

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is [www.nd.gov/rio/TFFR/Publications](http://www.nd.gov/rio/TFFR/Publications).

## Finding 1:

The employer incorrectly reported service hours for one retiree who has returned to covered employment. State law allows retirees who are receiving TFFR retirement benefits to return to covered employment under certain limitations. If the retiree exceeds the limitations, TFFR must discontinue payment of retirement benefits. One such limitation which must be adhered to

is the General Rule – Annual Hour Limit. Retirees who return to covered employment under the General Rule are restricted in the hours which can be worked based on the length of the contract issued. The employer is required to report actual hours worked by retirees who have returned to covered employment to TFFR. Reported hours for re-employed retirees should include the number of hours the member was employed including in-staff subbing hours but excluding extra-curricular and professional development hours. It is recommended that the employer establish procedures to monitor retirees who have returned to covered employment (i.e. timecards, etc.) to ensure proper reporting of hours to TFFR. It is recommended that the employer establish procedures to monitor retirees who have returned to covered employment (i.e. timecards, etc.) to ensure proper reporting of hours to TFFR. No corrections are necessary as actual hours worked did not exceed allowable hours.

Finding 2:

The employer failed to report eligible professional development stipend for one member. Salary earned for participation in professional development activities is eligible TFFR salary and should be reported in the fiscal year in which it is earned. The member's account will be corrected, contributions with interest will be billed to the employer, and RIO will notify the member of the changes. Please reference worksheets labeled *Primary Test, Salary Corrections Summary, and Changes in Salaries and Contributions* for additional information.

Finding 3:

The employer failed to report eligible in-staff subbing salary for two retirees who have returned to covered employment.

The employer incorrectly reported in-staff subbing salary earned by one re-employed retiree while under a time certain contract. A time certain contract is a contract that states a specific term of employment. Eligible salary earned during the term of the written agreement is reportable. Any salary earned before or after the term of the written agreement would not be reported. The member's account will be corrected, contributions with interest owed will be billed to the employer, and RIO will notify the member of the changes. Please reference worksheets labeled *Primary Test, Salary Corrections Summary, and Changes in Salaries and Contributions* for additional information.

The employer incorrectly reported in-staff subbing salary earned by one re-employed retiree due to a clerical error. An incorrect pay code was selected when payment was processed and as a result TFFR was not deducted as required. This was an isolated error and due to the immaterial amount of the error, no corrections will be made.

Finding 4:

The employer failed to report eligible coaching bonus for retiree who has returned to covered employment. Salary earned for a coaching bonus is eligible TFFR salary and should be reported in the fiscal year in which it is earned. The member's account will be corrected, contributions with interest will be billed to the employer, and RIO will notify the member of the changes. Please reference worksheets labeled *Primary Test, Salary Corrections Summary, and Changes in Salaries and Contributions* for additional information.

The amount of the contributions owed by the District is \$229.48. An invoice for the amount of contributions due is included. Please reference attached *Salary Correction Summary* for additional details. **Please provide payment for the contributions owed and a written response detailing the actions to be taken to correct the above findings by August 19, 2016.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.

Bradley Kasper  
Staff Auditor

Enclosures

**REPORT ON COMPLIANCE AUDIT  
FOR REPORTING AND PAYMENTS  
TO THE TEACHERS' FUND FOR RETIREMENT  
EIGHT MILE PUBLIC SCHOOL DISTRICT  
JULY 1, 2016**

**PURPOSE**

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with RIO/TFFR Management upon completion. Independent reports are filed with the Audit Committee of the State Investment Board (SIB) quarterly. All independent reports filed with the Audit Committee of the SIB are published on the RIO website in compliance with North Dakota open records and meetings laws.

**SCOPE**

This audit is designed to test the accuracy of retirement salaries and contributions reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the employer for the 2013/14 through 2014/15 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. Please reference the worksheet labeled *Primary Test* for additional information.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited.

The Primary Test did not disclose any reporting procedure used by the employer that would affect a large portion of the population for fiscal years 2013/14 through 2014/15. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

**FINDINGS**

In our opinion, for the time period covered in the audit, the retirement salaries for fiscal years 2013/14 through 2014/15 reported by the Eight Mile Public School District are in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following finding was noted.

1. The employer reported contract salary for one member in the wrong fiscal year.

**RECOMMENDATIONS AND CORRECTIVE ACTION**

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is [www.nd.gov/rio/TFFR/Publications](http://www.nd.gov/rio/TFFR/Publications).

Finding 1:

The employer reported contract salary for one member in the wrong fiscal year. Eligible salary must be reported in the fiscal year in which it is earned, regardless of when it was paid. A retroactive salary payment was made and reported in July 2013 but earned in June 2013. Corrections will be made to the member account and the member will be notified of the changes. Please reference the worksheets labeled *Primary Test* and *Salary Correction Summary* for additional information.

**Please provide a written response detailing actions to be taken to correct the above findings by July 29, 2016.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.

Bradley Kasper  
Staff Auditor

Enclosures

**REPORT ON COMPLIANCE AUDIT  
FOR REPORTING AND PAYMENTS  
TO THE TEACHERS' FUND FOR RETIREMENT  
HALLIDAY PUBLIC SCHOOL DISTRICT  
JULY 28, 2016**

**PURPOSE**

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with RIO/TFFR Management upon completion. Independent reports are filed with the Audit Committee of the State Investment Board (SIB) quarterly. All independent reports filed with the Audit Committee of the SIB are published on the RIO website in compliance with North Dakota open records and meetings laws.

**SCOPE**

This audit is designed to test the accuracy of retirement salaries and contributions reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the employer for the 2013/14 through 2014/15 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. See *Primary Test*.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited. See *Primary Test*.

The Primary Test did not disclose any reporting procedure used by the employer that would affect a large portion of the population for fiscal years 2013/14 through 2014/15. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

**FINDINGS**

In our opinion, for the time period covered in the audit, the retirement salaries for fiscal years 2013/14 through 2014/15 reported by the Halliday Public School District are generally in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted.

1. The employer failed to report eligible extra-curricular salary for yearbook advisor position for one member.
2. The employer failed to report eligible Title I salary for one re-employed retiree.
3. The employer reported contract salary to TFFR after deductions for vision and dental insurance for five members.
4. The employer failed to report eligible summer school salary for one member.
5. The employer reported ineligible busing salary for one member.
6. The employer does not actively monitor retirees who have returned to covered employment to ensure they do not exceed maximum allowable hours. The employer did not report actual hours worked for retirees who have returned to covered employment.

## **RECOMMENDATIONS AND CORRECTIVE ACTION**

A TFFR Compliance Audit was completed on the Halliday Public School District in 2011. During that audit, it was determined that contract salary was being reported to TFFR after deductions for insurance. In a subsequent Not In Compliance Review in 2013 it was determined that contract salary was being reported to TFFR after deductions for rent. A similar error has been identified during the most recent audit, contract salary is again being reported to TFFR after deductions for insurance. TFFR strongly recommends that Halliday Public School District contact their software vendor, Software Unlimited, for assistance in correcting this error. If this error continues to persist, the Halliday Public School District will be found not in compliance with the definition of salary as it appears in NDCC 15-39.1-04(9) at the time of the next audit. TFFR also recommends that employer personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is [www.nd.gov/rio/TFFR/Publications](http://www.nd.gov/rio/TFFR/Publications).

### Finding 1:

The employer failed to report eligible extra-curricular salary for yearbook advisor position for one member. A member's earnings for teaching, supervisory, administrative, and extra-curricular services performed during a school year are considered eligible TFFR salary. Corrections will be made to the member's account and the employer will be billed for contributions owed with interest. RIO will notify the member that changes have been made to their account. Please reference worksheets labeled *Primary Test, Salary Correction Summary, and Change in Salaries and Contributions* for additional information.

### Finding 2:

The employer failed to report eligible Title I salary for one re-employed retiree. . A member's earnings for teaching, supervisory, administrative, and extra-curricular services performed during a school year are considered eligible TFFR salary, this includes Title I activities. Corrections will be made to the member's account and the employer will be billed for contributions owed with interest. RIO will notify the member that changes have been made to their account. Please reference worksheets labeled *Primary Test, Salary Correction Summary, and Change in Salaries and Contributions* for additional information.

### Finding 3:

The employer reported contract salary to TFFR after deductions for vision and dental insurance for five members. Vision and dental insurance premiums were deducted from contract salary prior to the calculation of TFFR contributions causing salary and contributions to be under reported to TFFR. Two member accounts will be corrected and RIO will notify the members that adjustments have been made to their account. The employer will be billed for contributions owed with interest. Three member accounts will not be corrected due to the immaterial amount of the error. Please reference worksheets labeled *Primary Test, Salary Correction Summary, and Change in Salaries and Contributions* for additional information.

### Finding 4:

The employer failed to report eligible summer school salary for one member. A member's earnings for teaching, supervisory, administrative, and extra-curricular services performed during a school year are considered eligible TFFR salary. Corrections will be made to the member's account and the employer will be billed for contributions owed with interest. RIO will notify the member that changes have been made to their account. Please reference worksheets labeled *Primary Test, Salary Correction Summary, and Change in Salaries and Contributions* for additional information.

### Finding 5:

The employer reported ineligible busing salary for one member. A member's earnings for teaching, supervisory, administrative, and extra-curricular services performed during a school year are considered eligible TFFR salary, eligible salary does not include bus driver pay for route or extra-curricular purposes. The member's account will not be corrected due to the immaterial amount of the error. Please reference the worksheet labeled *Primary Test* for additional information.

### Finding 6:

The employer does not actively monitor retirees who have returned to covered employment to ensure they do not exceed maximum allowable hours. The employer did not report actual hours worked for retirees who have returned to covered employment. State law allows retirees who are receiving TFFR retirement benefits to return to covered

employment under certain limitations. If the retiree exceeds these limitations, TFFR must discontinue payment of retirement benefits. One such limitation which must be adhered to is the General Rule – Annual Hour Limit, retirees who returned to covered employment under the General Rule are restricted in the hours which can be worked based on the length of the contract issued. The employer is required to report actual hours worked by retirees who have returned to covered employment. The employer must also be aware of annual hour limitations and ensure that retirees are not exceeding those limits. Reported hours for re-employed retirees should include the number of hours the member was employed including in-staff subbing hours but excluding extra-curricular and professional development hours. It is recommended that the employer establish procedures to monitor retirees who have returned to covered employment to ensure proper reporting of hours to TFFR.

The amount of the contributions owed by the employer is \$2,727.79. An invoice for the amount of contributions due is included. Please reference attached *Salary Correction Summary* for additional details. **Please provide payment for the contributions owed and a written response detailing the actions to be taken to correct the above findings by August 19, 2016.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.

Bradley Kasper  
Staff Auditor

Enclosures



**REPORT ON COMPLIANCE AUDIT  
FOR REPORTING AND PAYMENTS  
TO THE TEACHERS' FUND FOR RETIREMENT  
SARGENT CENTRAL PUBLIC SCHOOL DISTRICT  
August 19, 2016**

**PURPOSE**

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with RIO/TFFR Management upon completion. Independent reports are filed with the Audit Committee of the State Investment Board (SIB) quarterly. All independent reports filed with the Audit Committee of the SIB are published on the RIO website in compliance with North Dakota open records and meetings laws.

**SCOPE**

This audit is designed to test the accuracy of retirement salaries and contributions reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the employer for the 2013/14 through 2014/15 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. Please reference the worksheets labeled *Primary Test – Model 1 and Primary Test – Model 2 Partial* for additional information.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited.

The Primary Test did not disclose any reporting procedure used by the employer that would affect a large portion of the population for fiscal years 2013/14 through 2014/15. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

**FINDINGS**

In our opinion, for the time period covered in the audit, the retirement salaries for fiscal years 2013/14 through 2014/15 reported by the Sargent Central Public School District are generally in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted.

1. The employer failed to report summer salary prior to summer 2015 for two members.
2. The employer reported summer salary earned in June 2015 in the wrong fiscal year for one member.
3. The employer failed to report in-service salary for twenty members.
4. The employer incorrectly reported contract salary for one member.
5. The employer incorrectly reported salary and service hours for one member without a written agreement.
6. The employer does not issue written agreements for summer school.
7. The employer does not report actual hours worked by retirees who have returned to covered employment.

**RECOMMENDATIONS AND CORRECTIVE ACTION**

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is [www.nd.gov/rio/TFFR/Publications](http://www.nd.gov/rio/TFFR/Publications).

Finding 1, 2, and 6:

The employer failed to report summer salary prior to summer 2015 for two members, the employer reported summer salary earned in June 2015 in the wrong fiscal year for one member, and the employer does not issue written agreements for summer school.

Salary earned for teaching summer school and summer programs like driver's education is generally reportable to TFFR. For additional information regarding summer school and summer programs please reference page 35 of the TFFR Employer Guide. It is important to remember that summer school salary is reportable in the fiscal year in which the salary is earned. Salary earned for summer school teaching and summer programs such as driver's education is often earned in two different fiscal years. For example:

*A licensed member is contracted to teach a summer school program (i.e. driver's education) from June 1 through July 15 (20 days in June and 20 days in July). The employer needs to report salaries and hours for the work performed (earned) from June 1 to June 30 on the June report and the salaries and hours for the work performed (earned) from July 1 to July 15 on the July report regardless of when the salaries were paid.*

It is very important that employers maintain proper documentation for all TFFR reportable summer employees. Including adequate accounting records which detail calendar days worked, hours worked per day, and salary. Employers should issue written agreements for summer programs. A written agreement can be a contract, school board minutes or other official document evidencing a contractual relationship between a teacher and a participating employer. If written agreements are not issued to a teacher employed with another employer or to teachers without a continuing contract, the salary would not be reportable to TFFR. The member accounts will be corrected, any contributions owed with interest will be billed to the employer, and RIO will notify the members of the changes. Please reference worksheets labeled *Primary Test – Model 1, Primary Test – Model 2 Partial, Salary Corrections Summary, and Changes in Salaries and Contributions* for additional information.

Finding 3:

The employer failed to report in-service salary for twenty members. Salary earned for participation in professional development activities is eligible TFFR salary and should be reported in the fiscal year in which it is earned. Nineteen member accounts will be corrected, contributions owed with interest will be billed to the employer, and RIO will notify the members of the changes. One member has refunded their account value therefore no corrections will be made. Please reference worksheets labeled *Primary Test – Model 1, Salary Corrections Summary, and Changes in Salaries and Contributions* for additional information.

Finding 4:

The employer incorrectly reported contract salary for one member. The member transitioned from an administrator position to a teaching position. The changes required to the accounting system to facilitate this transition caused contract salary earned under the administrator contract to not be reported to TFFR in error. This was an isolated incident. The member account will be corrected, contributions owed with interest will be billed to the employer, and RIO will notify the member of the changes. Please reference worksheets labeled *Primary Test- Model 1, Salary Corrections Summary, and Changes in Salaries and Contributions* for additional information.

Finding 5:

The employer incorrectly reported salary and service hours for one member without a written agreement. Salary can only be reported to TFFR if the member is currently licensed to teach in North Dakota and contractually employed in teaching, supervisory, administrative, or extra-curricular activities by a participating employer. An athletic co-op was formed by the employer and another participating employer. The member was hired by the athletic co-op to perform coaching duties. The member did not have a written agreement with either employer or the athletic co-op. Therefore, coaching salary earned would not be reportable to TFFR. The member account will be corrected, contributions paid will be refunded to the employer, and RIO will notify the member of the changes. Please reference worksheets labeled *Primary Test- Model 2 Partial, Salary Corrections Summary, and Changes in Salaries and Contributions* for additional information.

Finding 7:

The employer does not report actual hours worked by retirees who have returned to covered employment. The employer is required to report actual hours worked by retirees who have returned to covered employment. Reported hours for re-employed retirees should include the number of hours the member was employed including in-staff subbing hours but excluding extra-curricular and professional development hours. It is recommended that the employer establish procedures to monitor retirees who have returned to covered employment (i.e. timecards, etc.) to ensure proper reporting of hours to TFFR. No corrections will be required to the member account.

The amount of the contributions owed by the District is \$4,706.58. An invoice for the amount of contributions due is included. Please reference attached *Salary Correction Summary* for additional details. **Please provide payment for the contributions owed and a written response detailing the actions to be taken to correct the above findings by September 9, 2016.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.

Bradley Kasper  
Staff Auditor

Enclosures

**REPORT ON COMPLIANCE AUDIT  
FOR REPORTING AND PAYMENTS  
TO THE TEACHERS' FUND FOR RETIREMENT  
VELVA PUBLIC SCHOOL DISTRICT  
JULY 28, 2016**

**PURPOSE**

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with RIO/TFFR Management upon completion. Independent reports are filed with the Audit Committee of the State Investment Board (SIB) quarterly. All independent reports filed with the Audit Committee of the SIB are published on the RIO website in compliance with North Dakota open records and meetings laws.

**SCOPE**

This audit is designed to test the accuracy of retirement salaries and contributions reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the employer for the 2013/14 through 2014/15 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. Please reference the worksheet labeled *Primary Test* for additional information.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited.

The Primary Test did not disclose any reporting procedure used by the employer that would affect a large portion of the population for fiscal years 2013/14 through 2014/15. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

**FINDINGS**

In our opinion, for the time period covered in the audit, the retirement salaries for fiscal years 2013/14 through 2014/15 reported by the Velva Public School District are in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted.

1. The employer incorrectly reported in-staff subbing salary earned by a re-employed retiree while under a time certain contract.
2. The employer incorrectly reported service hours for two re-employed retirees.
3. The employer incorrectly reported service hours for two members.
4. The employer does not issue written agreements for all summer school programs.

**RECOMMENDATIONS AND CORRECTIVE ACTION**

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is [www.nd.gov/rio/TFFR/Publications](http://www.nd.gov/rio/TFFR/Publications).

Finding 1:

The employer incorrectly reported in-staff subbing salary earned by a re-employed retiree while under a time certain contract. A time certain contract is a contract that states a specific term of employment. Eligible salary earned during the term of the written agreement is reportable. Any salary earned before or after the term of the written agreement would not be reportable. The member's account will be corrected, contributions will be refunded to the employer, and RIO will notify the member of the changes. Please reference the worksheets labeled *Primary Test*, *Salary Corrections Summary*, and *Change in Salaries and Contributions* for additional information.

Finding 2:

The employer incorrectly reported service hours for two re-employed retirees. State law allows retirees who are receiving TFFR retirement benefits to return to covered employment under certain limitations. If the retiree exceeds these limitations, TFFR must discontinue payment of retirement benefits. One such limitation which must be adhered to is the General Rule – Annual Hour Limit, retirees who returned to covered employment under the General Rule are restricted in the hours which can be worked based on the length of the contract issued. The employer is required to report actual hours worked by retirees who have returned to covered employment. The employer must also be aware of annual hour limitations and ensure that retirees are not exceeding those limits. Reported hours for re-employed retirees should include the number of hours the member was employed including in-staff subbing hours but excluding extra-curricular and professional development hours. It is recommended that the employer establish procedures to monitor retirees who have returned to covered employment (i.e. timecards, etc.) to ensure proper reporting of hours to TFFR. No corrections will be required to the member accounts.

Finding 3:

The employer incorrectly reported service hours for two members. The employer is required to report actual hours worked to TFFR for members who work less than 700 hours a year. Corrections will be made to the members' accounts and RIO will notify the members that adjustments have been made to their accounts. Please reference the worksheet labeled *Service Hours Correction* for additional information.

Finding 4:

The employer does not issue written agreements for all summer school programs. TFFR recommends that the employer provide written agreements to **all** members for all summer school programs. A written agreement can be a contract, school board minutes or other official document evidencing a contractual relationship between a teacher and a participating employer. If written agreements are not issued to a teacher from outside the employer or teachers without a continuing contract with the employer, the salary would not be reported.

On April 21, 2016 the TFFR Board approved a new policy related to salary earned for equipment maintenance and repair, jobsite prep and finish work, and similar types of nonteaching duties. Beginning July 1, 2016 salary earned for these types of job duties is not considered eligible TFFR salary, unless the duties are included on the member's regular teaching contract. Velva Public School District has opted to include baseball field maintenance duties on a member's regular teaching contract. Under the new TFFR Board policy this salary will be considered TFFR eligible and should be reported to TFFR. A copy of the new TFFR Board policy has been included with the audit report for your reference. Please do not hesitate to contact Fay Kopp and Shelly Schumacher to discuss specific employer reporting questions.

The net amount of contributions overpaid by the employer is \$88.84. A check for the amount overpaid will be sent to the Business Manager. Please reference attached *Salary Correction Summary* for additional details. **Please provide a written response detailing actions to be taken to correct the above findings by August 16, 2016.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.

Bradley Kasper  
Staff Auditor

Enclosures

**Audit Services – North Dakota Retirement and Investment Office**  
**Audit for Processing the Accounts of Deceased Members,**  
**Long-Outstanding Checks, and Long-Term Annuitants,**  
**Final Audit Report**  
**August 26, 2016**

**Background**

The Audit Services Division of the Retirement and Investment Office (RIO) conducted an audit to verify that Retirement Services was following established procedures for processing deaths of annuitants, checks outstanding sixty days or longer, as well as monitoring long-term annuitants in payment status. This review was conducted per the request of the State Investment Board (SIB) Audit Committee, the Executive Director/CIO, and the Deputy Executive Director-Chief Retirement Officer.

**Results Summary**

Audit Services found that established procedures for processing deaths of annuitants, checks outstanding sixty days or longer, and monitoring of long-term annuitants in payment status were being followed by Retirement Services. Audit Services had two recommendations: one for processing checks outstanding longer than sixty days and one for the monitoring of long-term annuitants.

**Scope**

Information needed to complete the audit was requested on June 30, 2016. Audit work started July 6, 2016 and concluded on August 1, 2016. Audit work for each process reviewed encompassed three phases:

- Phase I – Review and Document Changes to Established Procedures
- Phase II – Sample Selection and Testing of Established Procedures
- Phase III – Findings and Recommendations

**Observations, Conclusions and Recommendations****Processing the Deaths of Annuitants:**

Two sets of procedures were reviewed including the methods employed by TFFR to determine if annuitants have died and the procedures instituted to close the deceased annuitants account following TFFR's notification of the death. The audit confirmed that Retirement Services has adhered to the established procedures for determining if an annuitant has died. Audit procedures also confirmed that Retirement Services has adhered to established procedures for closing a deceased annuitant's account upon notification of the annuitant's death.

The death of a member can be communicated to TFFR by family members, employers, banks, funeral homes, attorneys, searching obituaries in the papers, North Dakota Vital Statistic reports, and LifeStatus 360 reports (formerly Smallworld Solutions). In the audit, two LifeStatus 360 reports and twelve North Dakota Vital Statistic reports were reviewed. These reports compare the CPAS database to LifeStatus 360 and North Dakota Vital Statistics databases of deceased persons. LifeStatus 360 reports are run twice a year while the North Dakota Vital Statistic reports are run monthly.

The October LifeStatus 360 report had thirty-one annuitants which matched the CPAS database. The April LifeStatus 360 report had one annuitant which matched the CPAS database. Twenty-eight of the thirty-two deaths had already been processed by Retirement Services, two deaths were being processed by Retirement Services, and two deaths were new notifications. The number of matched annuitant deaths in 2015/16 was similar to the number of deaths in 2014/15. The expansion of the comparison

databases maintained by LifeStatus 360 has increased TFFR's opportunity to discover annuitants who live out-of- state that have died.

The two deaths which were new notifications were listed on the October 2015 LifeStatus 360 report. An overpayment of benefits occurred on one of the accounts. Procedures currently in place are designed to significantly reduce the risk of payment of retirement benefits to deceased individuals. These efforts have prevented such payments in all but two instances in the last seventeen years. Ultimately, it is impossible to eliminate the risk of payment of retirement benefits to deceased individuals. The cost of any additional actions which could be taken by Retirement Services staff to further reduce remaining risk would far exceed any benefits which could be gained. Audit Services believes that established procedures minimize the risk that benefit payments are overpaid and remaining risk assumed by TFFR is acceptable.

The twelve North Dakota Vital Statistics reports had one-hundred fifty-eight annuitants which matched the CPAS database. One-hundred thirty-two of the one hundred fifty-eight annuitants had already been processed by Retirement Services. The remaining twenty-six deaths were being processed.

Audit Services reviewed the procedures to close an account once the death of an annuitant is determined. Twenty-seven accounts were included in the test sample. The sample included eight accounts open from the prior audit year, eleven accounts open as of 7/1/2016, four accounts from the October/April LifeStatus 360 reports, and three accounts from the ND Vital Statistic reports. The last account included in the test sample was an account identified in a prior quarterly File Maintenance audit which warranted additional follow-up. Fifteen of the annuitant's accounts had been processed and appropriately closed. Twelve annuitant accounts remained open pending required documentation from the estate and/or family.

#### **Processing of Checks Outstanding Sixty Days or Longer:**

Procedures have been established by Retirement Services to ensure members cash payments in a timely manner. Those same procedures also dictate that staff follow-up with members and monitor checks outstanding longer than sixty days. Audit Services confirmed Retirement Services staff was adhering to the established procedures.

Four annuitants had checks outstanding sixty days or longer per the list of outstanding checks received from the Bank of North Dakota dated 7/1/2016. Retirement Services' staff was able to make contact with one of the annuitants and facilitate the cashing of the outstanding check. A second check outstanding was a roll-over of funds to another retirement system to purchase service hours, at the conclusion of the audit the purchase was still pending. The remaining two checks were issued to in-active members that were seventy and one-half years of age. To remain in compliance with the IRS, RIO was required to refund the value of the accounts to the members. To date, Retirement Services staff has been unable to make contact with the members nor facilitate the cashing of the outstanding checks. One check has been returned as undeliverable to the TFFR Administrative Office. The second member has not responded. Given the limitations placed on the fund by the IRS, the members' accounts must be closed and funds paid out. The Retirement Program Manager and the Fiscal and Investment Operations Manager have been made aware of the situation with the two members seventy and one-half years of age. This situation has not previously occurred and therefore no procedures are currently in place which dictates the handling of such checks. Following the close of the calendar year and the issuance of 1099 forms, the Retirement Program Manager and Fiscal Investment Operations Manager will determine next steps to be taken.

**Recommendation:**

Given that the current situation involving the two members who are age seventy and one half years of age with outstanding checks has not occurred prior to fiscal year 2015, it is understandable that procedures are not currently in place which dictates the handling of such outstanding checks. Once the proper handling procedures have been determined, Audit Services recommends Retirement Services formally document the procedures.

**Retirement Services Response:** The Retirement Program Manager will document the procedures to address the handling of an uncashed refund check issued as a result of an IRS Required Minimum Distribution to an in-active non-vested member over age seventy and one-half years. Once established, the documentation will be added to the CPAS Participants Procedure Manual.

**Monitoring Long-Term Annuitants in Pay Status:**

Audit Services reviews the accounts of annuitants ninety years of age and older who live out-of-state to verify original eligibility of retirement benefits and ensure that communication between the annuitant and TFFR is ongoing. Retirement Services also reviews the accounts of annuitants ninety years of age and older who reside out-of-the state to ensure that the annuitant is not deceased. Audit Services found that Retirement Services followed the established procedure for monitoring long-term annuitants.

There were 345 long-term annuitants listed on a report of annuitants generated by CPAS dated 6/30/2016. Twenty of the annuitants exceeded one hundred years of age. Audit Services reviewed four out-of-state annuitants who were over 100 years of age. One of the annuitants had two accounts. The microfiche on file had the appropriate retirement documents and salary/service hour's history confirming original eligibility of retirement benefits. Current image files contained more recent documents including direct deposit forms, tax forms, new beneficiary forms, and/or power of attorney documents confirming recent activity/communication between TFFR and the annuitant.

Audit Services then reviewed the Ninety Years and Older Long-Term Annuitant reports run and reviewed by Retirement Services during fiscal year 2015/16. Per procedure, Retirement Services reviewed the out-of-state annuitants listed on reports run during the first, second, third, and fourth quarter on Obitfinder, a website which lists obituaries of 1,500 national and international newspapers. A review of out-of-state annuitants listed on the Ninety Years and Over Report generated by CPAS was completed every quarter. One review was completed in May rather than June due to time constraints in processing retirements. Retirement Services should continue to follow the established procedure for running and reviewing the Ninety Years and Older Long-Term Annuitant report. Obit searches were not completed in the same months as the LifeStatus 360 searches. This ensured broader coverage throughout the year.

**Recommendation:**

For my review of the four sample members, I found that one the annuitants did not have a point of contact on file with TFFR. It had been over ten years since the annuitant has contacted TFFR. I recommend that some form of correspondence be sent to the annuitant to try and obtain a current point of contact.

**Retirement Service's Response:** The Retirement Program Manager sent a letter on July 26, 2016 requesting that the annuitant update demographic information on her account.



**Distribution:**

David Hunter, Executive Director/CIO

Fay Kopp, Deputy Executive Director/Chief Retirement Officer

Shelly Schumacher, Retirement Program Manager

### NEW MEMBER REPORTING REQUIREMENTS

A [Member Action form](#) must be completed when a participating employer hires a new teacher. The form is also required if you rehire a teacher after a break in employment with your school district of one year or more. This form provides TFFR with important information including the member's legal name, social security number, birth date, current mailing address, and beneficiary information. Designating a beneficiary allows the member to direct payment of survivor benefits in the event of the member's death.

This form should also be used to notify TFFR of the following:

- A change in name or address
- An update to the beneficiary designation
- Taking or returning from a leave of absence

If we don't receive the Member Action form within thirty days from the date the member is first reported to TFFR, the employer may be assessed a \$250 penalty for late reporting.



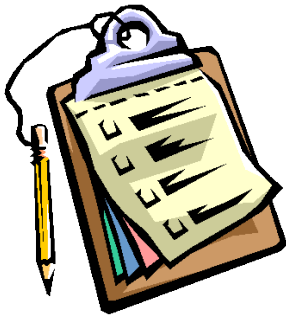
### EMPLOYING RETIREES IN CRITICAL SHORTAGE AREAS

In addition to the "General Rule," retired teachers may also return to TFFR covered employment in an approved "Critical Shortage Area" (CSA) without losing retirement benefits. If retired prior to January 1, 2001, no waiting period is required. However, if the TFFR retirement date is after January 1, 2001, a one year waiting period is required. **Only non-contracted substitute teaching may be performed during the waiting period.** The CSA exception must be requested each year by completing a [Retired Member Employment Notification form](#).

The critical shortage areas are determined each year by the Education Standards and Practices Board (ESPB). For the 2016-17 school year, all subject areas are deemed critical. A critical shortage area exception may also be requested based on geographical area.

### GASB STATEMENT 68 UPDATE

The audited fiscal year [2015 GASB Statement 68 information](#) is available on our website. This information includes the Schedules of Employer Allocations and Pension Amounts by Employer, GASB 68 Disclosure Template, and Sample Journal Entries. Employers and auditors can use this information to complete your 2016 financials.



## TFFR FORMS

- ☺ Please submit a [Notification of School District Change form](#) if there are any changes in contact (i.e. superintendent/business manager) or demographic information.
- ☺ If you are employing a new teacher or have teachers with a change in their name or address, TFFR will need a new [Member Action form](#).
- ☺ If you have employed a TFFR retiree, please make sure to complete the [TFFR Retired Member Employment Notification form](#). This form must be completed each year a retiree is employed and submitted to TFFR no later than 30 days after employment begins.
- These forms and others are found on our [website](#).

FALL  
is on the  
WAY!



## TFFR Employer Audit Information Corner

Terra Miller Bowley  
Supervisor of Audit Services

### REPORTING RETIREE SERVICE HOURS

State law allows retirees who are receiving TFFR retirement benefits to return to covered employment under certain limitations. Retirees can opt to return to covered employment under the General Rule – Annual Hour Limit or Exception A – Critical Shortage Area. Retirees who choose to return to covered employment under the General Rule are restricted in the number of hours which can be worked based on the length of the contract issued. For example, retirees with a 9 month contract can work no more than 700 hours.

Participating employers are required to report to TFFR the actual hours worked by retirees who have returned to covered employment. Audit Services recommends that employers establish procedures (i.e. timecards, etc.) to monitor hours worked by retirees. This will ensure proper reporting of service hours to TFFR. The active monitoring of hours worked by retirees will also ensure that retirees do not exceed annual hour limitations. It is important to remember that if a retiree exceeds the annual hour limitation TFFR must discontinue payment of retirement benefits.

Reported hours to TFFR for re-employed retirees should include the number of hours the retiree was employed including in-staff subbing hours but excluding extra-curricular and professional development hours.