



ND STATE INVESTMENT BOARD AUDIT COMMITTEE MEETING

Friday September 22, 2017 - 8:30 AM
State Capitol - Peace Garden Room
600 East Blvd Ave, Bismarck, ND 58505

AGENDA

1. Call to Order and Approval of Agenda – Chair (committee action)(5 minutes)
2. Approval of May 25, 2017 Minutes – Chair (committee action)(5 minutes)
3. Election of Chair, Vice Chair, and Liaison – Chair (committee action)(10 minutes)
4. 2017 - 2018 Affirmation of Code of Conduct Policy – Cody Schmidt (information)(5 minutes)
5. 2016 - 2017 Year End Audit Activities Report –Terra Miller Bowley (committee action)(15 minutes)
6. 2016 - 2017 Audit Committee Report to SIB – Terra Miller Bowley (committee action)(5 minutes)
7. Audit Charter: 2016 - 2017 Review of Responsibilities – Terra Miller Bowley (committee action)(10 minutes)
8. Audit Charter: 2016 - 2017 Review – Terra Miller Bowley (committee action)(10 minutes)
9. Other – Next SIB Audit Committee Meeting

North Dakota Retirement and Investment Office
3442 E Century Ave, Bismarck, ND 58503
Thursday November 16, 2017 @ 3:00 PM

10. 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 25, 2017, MEETING**

COMMITTEE MEMBERS PRESENT: Rebecca Dorwart, Chair
Mike Gessner, TFFR Board (TLCF)
Mike Sandal, PERS Board
Cindy Ternes, Workforce Safety & Insurance
Josh Wiens, External Representative

STAFF PRESENT: Connie Flanagan, Fiscal & Invt Ops Mgr
Bonnie Heit, Assist to the Audit Committee
David Hunter, ED/CIO
Fay Kopp, Dep ED/CRO
Terra Miller Bowley, Suprv Audit Services
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 3:00 p.m. on Thursday, May 25, 2017, at the Peace Garden Room, State Capitol, Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO APPROVE THE AGENDA FOR THE MAY 25, 2017, MEETING AS DISTRIBUTED.

**AYES: MR. SANDAL, MS. TERNES, MR. WIENS, MR. GESSNER, AND MS. DORWART
NAYS: NONE
MOTION CARRIED**

MINUTES:

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. WIENS AND CARRIED ON A VOICE VOTE TO ACCEPT THE FEBRUARY 23, 2017, MINUTES.

**AYES: MR. GESSNER, MR. SANDAL, MS. TERNES, MR. WIENS, 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, 2016 to June 30, 2017.

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, 2016. An unmodified opinion was issued on the statements.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. WIENS AND CARRIED BY A VOICE VOTE TO ACCEPT CLIFTONLARSONALLEN'S REPORT.

AYES: MS. TERNES, MR. WIENS, MR. SANDAL, MR. GESSNER, AND MS. DORWART

NAYS: NONE

MOTION CARRIED

AUDIT ACTIVITIES REPORT:

Ms. Miller Bowley reviewed activities of the Audit Division for the period of January 1, 2017 - March 31, 2017.

As of March 31, 2017, twenty-one employer audits were completed. This entailed two Special Audits, one Not In Compliance review, and eighteen Compliance Audits, with four more estimated to be closed prior to the end of the fiscal year.

The TFFR File Maintenance Audit was completed for the second quarter of fiscal year 2017 and no exceptions were noted.

The Annual Salary Verification Project commenced toward the end of March. Audit Services anticipates that the bulk of the work including employer notifications will occur during the month of April and the audit concluding in early May.

The Executive Limitations Audit was completed in February 2017. Audit Services was sufficiently satisfied that the Executive Director/CIO was in compliance with SIB Governance Manual Executive Limitation policies A-1 through A-11 for calendar year 2016.

The Executive Review Committee has requested the assistance of Audit Services to facilitate a survey of current SIB members for the purpose of evaluating the Executive Director/CIO of RIO. The survey will be administered in April 2017 and the results will be provided to the Executive Review Committee shortly thereafter.

Ms. Miller Bowley also stated Audit Services continues to pursue networking and professional development opportunities via the IIA's local chapter, Central Nodak.

Mr. Sandal, as a member of the Executive Review Committee, commented the support by Audit Services during the Executive Director/CIO review was very very good.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MS. TERNES AND CARRIED BY A VOICE VOTE TO ACCEPT THE JANUARY 1, 2017 - MARCH 31, 2017, AUDIT ACTIVITIES REPORT.

AYES: MR. GESSNER, MR. WIENS, MR. SANDAL, MS. TERNES, AND MS. DORWART

NAYS: NONE

MOTION CARRIED

WORKPLAN:

Ms. Miller Bowley reviewed the July 1, 2017 - June 30, 2018 Audit Services workplan.

Discussion followed on the allocation of Audit Services time particularly on the use of Audit Command Language (ACL). Ms. Miller Bowley stated because of the priorities established for the agency, the workplan does not allow anytime towards ACL at this time.

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. SANDAL AND CARRIED BY A VOICE VOTE TO ACCEPT THE JULY 1, 2017 - JUNE 30, 2018, AUDIT SERVICES WORKPLAN.

AYES: MR. GESSNER, MR. SANDAL, MS. TERNES, MR. WIENS, AND MS. DORWART

NAYS: NONE

MOTION CARRIED

FRAUD HOTLINE:

Ms. Miller Bowley informed the Audit Committee RIO has installed an employee fraud hotline effective April 2017. The hotline allows employees to report fraudulent and wrongful behavior and remain anonymous. Online submissions can be made by employees 24/7 and a toll-free call service is available during business hours. RIO has designated the Executive Director/CIO as primary contact and the Supervisor of Audit Services as secondary contact. The Audit Committee suggested an external contact be designated as well. Ms. Miller Bowley will look into it.

BOARD EDUCATION:

Ms. Miller Bowley informed the Audit Committee Audit Services provided an educational segment to the Teachers' Fund for Retirement Board at their March 23, 2017, meeting. The presentation included an overview of the Audit Services Division and the employer-auditing program. The presentation was provided to the Audit Committee.

MEETING SCHEDULE:

Ms. Miller Bowley presented a draft meeting schedule for the Audit Committee's consideration for the period of July 1, 2017 - June 30, 2018.

IT WAS MOVED BY MR. WIENS AND SECONDED BY MR. GESSNER AND CARRIED BY A VOICE VOTE TO ACCEPT THE JULY 1, 2017 - JUNE 30, 2018, AUDIT SERVICES MEETING SCHEDULE.

AYES: MR. GESSNER, MR. WIENS, MR. SANDAL, MS. TERNES, AND MS. DORWART

NAYS: NONE

MOTION CARRIED

MEMBERSHIP:

Ms. Miller Bowley requested the Audit Committee notify her by June 1, 2017, if they are willing to continue to serve on the Audit Committee for the period of July 1, 2017 - June 30, 2018.

Mr. Sandal stated he would not be extending his term. The Audit Committee thanked Mr. Sandal for his service. Mr. Sandal has been a trustee of the Audit Committee since September 25, 2009. Mr. Sandal stated it has been an educational experience and thanked the Audit Committee and the team at RIO.

OTHER:

The next Audit Committee meeting is scheduled for Friday, September 22, 2017, at 1:00 pm at the State Capitol, Peace Garden Room.

With no further business to come before the Audit Committee, Ms. Dorwart adjourned the meeting at 4:05 p.m.

Respectfully Submitted:

Ms. Rebecca Dorwart, Chair
SIB Audit Committee

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 22, 2017

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. Therefore, members of the SIB Audit Committee, who have not already done so, are also required to affirm their understanding of SIB Governance Manual Policy B-8, *Board Members' Code of Conduct*.

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.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: BOARD MEMBERS' CODE OF CONDUCT

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

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 Audit Committee

From: RIO Compliance Officer

Date: September 22, 2017

RE: Annual 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 SIB Audit Committee. Item #10 of this policy indicates that each Board Member is required to reaffirm 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):

MEMORANDUM

TO: State Investment Board (SIB) Audit Committee

FROM: Terra Miller Bowley, Supervisor of Audit Services

DATE: September 22, 2017

SUBJECT: 2016-2017 Year End Audit Activities Report

Audit coverage was based on the July 1, 2016 through June 30, 2017 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) Employer Audits**
 - **AUDIT PLAN REQUIREMENTS:** Complete 20 - 25 TFFR Employer Audits which includes Compliance Audits, Not in Compliance (NIC) Reviews, and Special Audits. Notify employers of an upcoming audit as needed. Number of employers to be notified is dependent on pending audit inventory. Complete audit planning for the upcoming fiscal year in the fourth quarter.
 - **2016-2017 ACTUAL ACTIVITIES:**
 - Twenty five (25) TFFR Employer Audits were completed during fiscal year 2017. This included:
 - Twenty two (22) Compliance Audits
 - One (1) NIC Review
 - Two (2) Special Audits
 - Three (3) Compliance Audits were in progress at the conclusion of fiscal year 2017.
 - Two (2) Compliance Audits were pending but not yet started at the conclusion of fiscal year 2017.
 - Audit information was pending from three (3) employers who had been notified of an upcoming audit at the conclusion of fiscal year 2017.
 - Fourteen (14) employers received audit notifications in fiscal year 2017. Data on two (2) employers was pending review with audit notifications anticipated at the beginning of fiscal year 2018.
 - Audit planning for fiscal year 2017-2018 was completed in the fourth quarter and presented to and approved by the SIB Audit Committee in May 2017.
- **Regional Education Associations (REA) Audits**
 - **AUDIT PLAN REQUIREMENTS:** Create and implement an audit program which addresses REAs and complete a Compliance Audit on one REA.
 - **2016-2017 ACTUAL ACTIVITIES:**
 - 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, and long term annuitants is completed to determine that established policies and procedures are being followed by Retirement Services staff.
 - **2016-2017 ACTUAL ACTIVITIES:**
 - The Benefit Payment Audit was completed on August 26, 2016.
- **TFFR File Maintenance Audit**
 - **AUDIT PLAN REQUIREMENTS:** On a quarterly basis Audit Services reviews changes made to TFFR member account data by Retirement and Investment Office (RIO) staff utilizing CPAS generated audit tables. Refunds and purchases of service credit (installment and lump sum) along with member account information entered from Member Action Forms is also reviewed as a part of this audit.

- **TFFR File Maintenance Audit (Continued)**
 - **2016-2017 ACTUAL ACTIVITIES:**
 - The Fourth Quarter 2016 File Maintenance Audit was completed on September 19, 2016.
 - The First Quarter 2017 File Maintenance Audit was completed on November 3, 2016.
 - The Second Quarter 2017 File Maintenance Audit was completed on May 3, 2017.
 - The Third Quarter 2017 File Maintenance Audit was in progress at the end of fiscal year 2017.
- **Annual Salary Verification Project**
 - **AUDIT PLAN REQUIREMENTS:** On an annual basis Audit Services verifies retirement salaries and contributions reported to TFFR for the prior fiscal year for 50 randomly selected member accounts. TFFR eligibility and service hours are also verified.
 - **2016-2017 ACTUAL ACTIVITIES:**
 - The Annual Salary Verification Project was completed on June 5, 2017.
- **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. Audit Services will verify that this mission is being achieved. As a part of this overall process Audit Services will also verify the accuracy of benefit payments via the recalculation of benefit payments for a sampling of member accounts.
 - **2016-2017 ACTUAL ACTIVITIES:**
 - This audit was begun at the close of fiscal year 2016 with the anticipation that it would be completed during the first quarter of fiscal year 2017. However it was determined that other higher priority audit activities existed and therefore hours allocated to this specific task were reallocated.
- **ACL Software Project**
 - **AUDIT PLAN REQUIREMENTS:** GASB 68 has resulted in the creation of a Master Payroll File. The Master Payroll File presents an incredible opportunity for Audit Services. When used in conjunction with ACL analytics software, the Master Payroll File will allow for improved audit sampling and the possibility of 100% audits.
 - **2016-2017 ACTUAL ACTIVITIES:**
 - Hours allocated to this particular task were reallocated to other higher priority audit activities. It should be noted that Audit Services did leverage the Master Payroll File without ACL during fiscal year 2017. The Master Payroll File was used on all 100% audits. This proved very successful and a Master Payroll File will be used on all future 100% audits with or without the incorporation of ACL.

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. Each year the Executive Director/CIO is evaluated via a survey administered to all staff members. Audit Services also facilitates and compiles the results of the annual SIB Executive Review Committee survey administered to members of the SIB at the request of the SIB Executive Review Committee.
 - **2016-2017 ACTUAL ACTIVITIES:**
 - The Executive Limitation Audit was completed on February 23, 2017.
 - The Executive Director/CIO Effectiveness Survey was completed on January 4, 2017.
 - The SIB Executive Review Committee Survey was completed on April 18, 2017.
- **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.
 - **2016-2017 ACTUAL ACTIVITIES:**
 - 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.
 - **2016-2017 ACTUAL ACTIVITIES:**
 - 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.
 - **2016-2017 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.
- **Audit Services Procedure Manual**
 - **AUDIT PLAN REQUIREMENTS:** Creation of an Audit Services policy and procedure manual.
 - **2016-2017 ACUTAL ACTIVITIES:**
 - No audit procedures were documented during fiscal year 2017. TFFR File Maintenance procedures written in fiscal year 2016 were updated during fiscal year 2017.
- **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.
 - **2016-2017 ACUTAL ACTIVITIES:**
 - 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.
- **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.
 - **2016-2017 ACTUAL ACTIVITIES:**
 - Audit Services continued to pursue networking and professional development opportunities via the IIA’s local chapter, Central NoDak. Staff attended monthly IIA meetings throughout the year which covered a variety of topics.
 - The Supervisor of Audit Services completed the requirements for a Certified Internal Auditor (CIA) designation in July 2016.
 - The Supervisor of Audit Services attended the IIA’s fall seminar which focused on forensic accounting and financial statement fraud analysis.
 - Audit Staff attended the IIA’s spring seminar which focused on consulting activities, skills, and attitudes.

Administrative activities (non-audit related) including time reports, meeting attendance, general reporting, email, etc. were carried out in accordance with the approved audit plan in fiscal year 2016-2017.

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
NORTHWOOD PUBLIC SCHOOLS
MARCH 31, 2017**

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 Northwood Public Schools 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 employer did not actively monitor the service hours for all retirees who have returned to covered employment to ensure that maximum allowable hours were not exceeded. Actual service hours were not reported for three retirees who returned to covered employment.
2. The employer reported salary in the wrong fiscal year for two members in 2013/14 and 2014/15.
3. The employer was unable to provide documentation for the dates summer revitalization curriculum salary was earned in 2013/14 and 2014/15.
4. The employer did not report eligible extra-curricular elementary basketball salary for one member in 2013/14.
5. The employer did not report eligible concession supervision salary for ten members in 2015/16.

6. The employer reported service hours incorrectly for one member.

RECOMMENDATIONS AND CORRECTIVE ACTION

TFFR 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.

Finding 1:

The employer did not actively monitor the service hours for all retirees who have returned to covered employment to ensure that the maximum allowable hours were not exceeded. Actual service hours were not reported for three retirees who returned to covered employment in 2013/14 and 2014/15. 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. **Actual hours reported for re-employed retirees should include the number of hours for teaching, in-staff subbing, after-school, and summer school, but exclude extra-curricular and professional development hours.** Please remember that salary for extra-curricular and professional development is still reportable. TFFR recommends that the employer set-up a system for monitoring the hours of retirees. No correction will be made to the service hours reported for the three members because the hours did not exceed the maximum allowable hours.

Finding 2:

The employer reported salary in the wrong fiscal year for two members in 2013/14 and 2014/15. Summer salary must be reported in the fiscal year in which it is earned, regardless of when it is paid. Salary earned for most summer programs (including driver's education) will be reported in two fiscal years. Summer salary earned in June was incorrectly reported in July, the next fiscal year. The June summer salary will be moved to the correct fiscal year. Service hours for both members will be adjusted. RIO will notify the members that adjustments have been made. For additional information, please reference the worksheets labeled *Primary Test, Changes in Salaries and Contributions, and Service Hours Correction*.

Finding 3:

The employer was unable to provide documentation for the dates summer revitalization curriculum salary was earned in 2013/14 and 2014/15. Salary must be reported in the fiscal year in which it is earned, regardless of when it is paid. Individuals are allowed to complete summer revitalization curriculum hours throughout June, July, and August. Individuals are paid for hours worked upon completion. At this time, TFFR is unable to determine if the salary reported was done so in the proper fiscal year due to lack of documentation. The Employer will be required to provide such documentation in the future upon request.

Findings 4 and 5:

The employer did not report eligible extra-curricular elementary basketball and concessions supervision salary for eleven members during the audit period. Salary earned for providing teaching, supervisory, administrative, and extra-curricular services is considered eligible salary and therefore must be reported to TFFR. Ten of the eleven member accounts will not be corrected due to the immaterial dollar amount of the error. One member account will be corrected. RIO will notify the member that an adjustment has been made to their account and the employer will be billed for the contributions owed with interest. Please reference the worksheets labeled *Primary Test and Changes in Salaries and Contributions* for additional information.

Finding 6:

The employer incorrectly reported service hours one member. The member taught special education classes at Northwood under a third party agreement with a special education employer. Northwood issued written agreements for additional salary and service hours reported to TFFR. The additional service hours for the after-school, summer school, and subbing salary reported were not accurate. There will be no correction made to the account because the member had already earned a full year service credit with the special education employer.

The amount of contributions due with interest is \$486.33. An invoice for the amount of contributions due is included. Please reference the worksheet labeled *Salary Correction Summary* for additional details. **Please provide the contributions due and a written response detailing actions to be taken to correct the above findings by May 2, 2017.**

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
WILLISTON PUBLIC SCHOOL DISTRICT
APRIL 18, 2017**

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(10). 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 for the 2014/15 through 2015/16 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 2014/15 through 2015/16. 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 2014/15 through 2015/16 reported by the Williston Public School District are in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (10). The following findings were noted:

1. The employer failed to report eligible teacher mentoring salary to TFFR for one member.
2. The employer failed to report eligible in-staff substitute teaching salary to TFFR for one member.
3. The employer failed to report eligible summer school teaching salary to TFFR for one member.
4. The employer failed to report eligible student tutoring salary to TFFR for one member.
5. The employer failed to report eligible professional development salary to TFFR for one member.
6. The employer reported ineligible non-contracted substitute teaching salary to TFFR for four members.
7. The employer reported ineligible non-contracted professional development salary to TFFR for one member.
8. The employer reported ineligible sick and/or personal leave payments to TFFR for two members.
9. The employer reported eligible extended contract salary to TFFR in the wrong fiscal year for one member.
10. The employer reported eligible summer school salary to TFFR in the wrong fiscal year for one member.
11. The employer reported salary to TFFR without a written agreement for one member.

12. The employer reported service hours incorrectly to TFFR for six members.
13. The employer does not actively monitor retirees who have returned to covered employment to ensure that they do not exceed the maximum allowable hours.

RECOMMENDATIONS AND CORRECTIVE ACTION

TFFR 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.

Finding 1, 2, 3, 4, & 5:

The employer failed to report eligible teacher mentoring, in-staff substitute teaching, summer school teaching, student tutoring, and professional development salary to TFFR for one member. The member was a full-time teacher with the Willmac Special Education Unit and was assigned to the Williston Public School District to be a special education teacher and strategist during the years covered by the audit. In addition to providing special education services, the member also performed additional duties as requested by the Williston Public School District which included teacher mentoring, in-staff substitute teaching, summer school teaching, student tutoring, and attendance at professional development activities. The member was covered under written agreements issued by the Williston Public School District and the third party agreement which exists between the Willmac Special Education Unit and the Williston Public School District. Once a member is contracted to perform teaching, supervisory, administrative, or extracurricular services, additional payments for performance of duties of a teacher are considered eligible retirement salary and must be reported to TFFR. This includes salary earned for the previously mentioned duties. The member account will be corrected and RIO will notify the member that adjustments have been made to their account. The employer will be billed for contributions owed with interest. Please reference the worksheets labeled *Primary Test*, *Change in Salaries and Contributions*, and *Salary Correction Summary* for additional details.

Finding 6 & 7:

The employer reported ineligible non-contracted substitute teaching salary for four members and non-contracted professional development salary for one member to TFFR. Eligible salary can only be reported to TFFR if the member is currently licensed to teach in North Dakota by the ESPB and contractually employed by a participating employer to provide teaching, supervisory, administrative, or extra-curricular services. Four members performed substitute teaching duties and one of these members also attended professional development activities while waiting for their teaching license to be issued by ESPB. Given that the members were neither licensed by ESPB nor provided written agreements by the Williston Public School District any salary earned for the performance of these duties was not reportable to TFFR. Three member accounts will be corrected and RIO will notify the members that adjustments have been made to their accounts. One member account will not be corrected as the member is deceased. The contributions paid will be refunded to the employer. Please reference the worksheets labeled *Primary Test*, *Change in Salaries and Contributions*, and *Salary Correction Summary* for additional details.

Finding 8:

The employer reported ineligible sick and/or personal leave payments to TFFR for two members. A data entry error in the employer's accounting system caused payments issued for sick leave and/or personal leave to be reported to TFFR. Payments for unused sick leave, personal leave, vacation leave, or other leave are considered ineligible retirement salary and are not reportable to TFFR. The two member accounts will be corrected and RIO will notify the members that adjustments have been made to their accounts. The contributions paid will be refunded to the employer. Please reference the worksheets labeled *Primary Test*, *Change in Salaries and Contributions*, and *Salary Correction Summary* for additional details.

Finding 9 & 10:

The employer reported eligible extended contract salary for one member and summer school salary for one member to TFFR in the wrong fiscal year. Eligible salary is reportable in the fiscal year in which the salary is earned, regardless of when the salary is actually paid. Salary earned for most summer programs (including driver's education) and end of year extended contracts will often be reported in two fiscal years. Salary earned in June will be reported in one fiscal year while salary earned in July will be reported in the next fiscal year. The two member accounts will be corrected and RIO will notify the members that adjustments have been made to their accounts. Contributions overpaid due to a contribution rate change will be refunded to the employer. Please reference the worksheets labeled *Primary Test*, *Change in Salaries and Contributions*, and *Salary Corrections Summary* for details.

Finding 11:

The employer reported salary to TFFR without a written agreement for one member. Eligible salary can only be reported to TFFR if the member is currently licensed to teach in North Dakota by the ESPB and contractually employed by a participating

employer to provide teaching, supervisory, administrative, or extra-curricular services. The member attended required professional development prior to the start of the 2014-2015 school year but abruptly resigned before the actual start of the school year on August 18, 2014. The member did not perform any teaching services which would have been covered under a written agreement had negotiations concluded and one was issued. Therefore the member is considered to be non-contracted and without a written agreement. The member account will be corrected and RIO will notify the member that adjustments have been made to their account. The contributions paid will be refunded to the employer. Please reference the worksheets labeled *Primary Test*, *Change in Salaries and Contributions*, and *Salary Correction Summary* for additional details.

Finding 12:

The employer reported service hours incorrectly to TFFR for six members. The employer is required to report actual hours worked to TFFR for any members who work less than 700 hours during the year. Five member accounts will be corrected and RIO will notify the members that adjustments have been made to their accounts. One member account does not require corrections as the member has refunded their account. Please reference the worksheets labeled *Primary Test* and *Service Hours Correction* for additional details.

Finding 13:

The employer does not actively monitor retirees who have returned to covered employment to ensure that 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 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 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. The employer must 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 but exclude 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 contributions overpaid is \$1,188.10. A check for the amount overpaid will be sent to the Business Manager. Please reference the worksheet labeled *Salary Correction Summary* for additional information. **Please provide a written response detailing the actions the employer intends to take to address the findings noted above by May 19, 2017.**

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
CENTRAL VALLEY PUBLIC SCHOOLS
JUNE 1, 2017**

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(10). 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 2014/15 through 2015/16 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 2014/15 through 2015/16. 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 2014/15 through 2015/16 reported by Central Valley Public Schools were in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (10). The following findings were noted.

1. The employer did not actively monitor the service hours for two retirees who had returned to covered employment to ensure that maximum allowable hours were not exceeded. Actual hours were not reported to TFFR.
2. The employer reported an ineligible payout of comp-time earned for in-staff substitute teaching for eighteen members.

RECOMMENDATIONS AND CORRECTIVE ACTION

TFFR 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.

Finding 1:

The employer did not actively monitor the service hours for two retirees who had returned to covered employment to ensure that the maximum allowable hours were not exceeded. Actual service hours were not reported to TFFR. The employer utilizes an honor system to monitor the hours worked by 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. **Actual hours reported for re-employed retirees should include the number of hours for teaching, in-staff substitute teaching, and participation in before/after school and summer school programs. Extra-curricular and professional development hours are excluded.** Please remember that salary earned for extra-curricular and professional development activities is still reportable. **The employer should establish procedures that monitor days and hours worked for retirees who have returned to covered employment.** No correction will be made to the service hours reported for the members.

Finding 2:

The employer reported an ineligible payout of comp-time earned for in-staff substitute teaching for eighteen members. Teachers (excluding administrators) can choose to accept payment of salary or earn comp-time for in-staff substitute teaching. If they do not use the accumulated comp-time by year-end, the balance is reimbursed to the teachers the same as personal leave. Reimbursement received for comp-time earned for in-staff substitute teaching **is not reportable** to TFFR. However, when the teacher is paid salary for in-staff substitute teaching, the salary is reportable. No corrections will be required to the member accounts given the immaterial dollar amount of the errors. For additional information, please reference the worksheet labeled *Primary Test*.

Please provide a written response detailing actions to be taken to correct the findings noted above by July 7, 2017.

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
DUNSEITH PUBLIC SCHOOL DISTRICT
JUNE 7, 2017**

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(10). 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 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 Dunseith Public School District are in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (10). The following findings were noted:

1. The employer reported eligible summer school salary to TFFR in the wrong fiscal year for seven members.
2. The employer failed to report eligible summer salary to TFFR for three members.
3. The employer reported ineligible cash in lieu of benefit payment to TFFR for one member.
4. The employer reported service hours incorrectly to TFFR for two members.

RECOMMENDATIONS AND CORRECTIVE ACTION

TFFR 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.

Finding 1:

The employer reported eligible summer school salary to TFFR in the wrong fiscal year for seven members. Eligible salary is reportable in the fiscal year in which the salary is earned, regardless of when the salary is actually paid. Salary earned for most summer programs (including driver's education) will often be reported in two fiscal years. Salary earned in June will be reported in one fiscal year while salary earned in July and August will be reported in the next fiscal year. Seven member accounts will be corrected and RIO will notify the members that adjustments have been made to their accounts. Contributions overpaid due to a contribution rate change will be refunded to the employer. Please reference the worksheets labeled *Primary Test, Change in Salaries and Contributions*, and *Salary Correction Summary* for additional details.

Finding 2:

The employer failed to report eligible summer salary to TFFR for three members. Salary earned for participation in summer school and/or summer programs is considered eligible salary and must be reported to TFFR. Three member accounts will be corrected and RIO will notify the members that adjustments have been made to their accounts. The employer will be billed for contributions owed with interest. Please reference the worksheets labeled *Primary Test, Change in Salaries and Contributions*, and *Salary Correction Summary* for additional details.

Finding 3:

The employer reported ineligible cash in lieu of benefit payment to TFFR for one member. Insurance programs including medical, dental, vision, disability, life, long-term care, workers compensation, and other insurance premiums or benefits including payments received in lieu of these benefits are considered ineligible salary and should not be reported to TFFR. The member account will be corrected and RIO will notify the member that adjustments have been made to their account. Contributions paid will be refunded to the employer. Please reference the worksheets labeled *Primary Test, Change in Salaries and Contributions*, and *Salary Correction Summary* for additional details.

Finding 4:

The employer reported service hours incorrectly to TFFR for two members. The employer is required to report actual hours worked to TFFR for any members who work less than 700 hours during the year. Two member accounts will be corrected and RIO will notify the members that adjustments have been made to their accounts. Please reference the worksheets labeled *Service Hours Correction* for additional details.

The amount of contributions overpaid is \$243.40. A check for the amount overpaid will be sent to the Business Manager. Please reference the worksheet labeled *Salary Correction Summary* for additional information. **Please provide a written response detailing the actions the employer intends to take to address the findings noted above by July 7, 2017.**

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
MINNEWAUKAN PUBLIC SCHOOLS
JUNE 9, 2017**

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(10). 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 2014/15 through 2015/16 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 2014/15 through 2015/16. 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 2014/15 through 2015/16 reported by Minnewaukan Public Schools were generally in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (10). The following findings were noted.

1. The employer did not actively monitor the service hours for one retiree who had returned to covered employment to ensure that maximum allowable hours were not exceeded. Actual service hours were not reported for one retiree who returned to covered employment in 2014/15 and 2015/16.
2. The employer reported salary which was not earned for one member in 2015/16.
3. The employer did not report eligible family night salary for eight members in 2014/15.
4. The employer did not report eligible summer salary for two members in 2014/15 and 2015/16.
5. The employer did not report eligible in-service salary for one member in 2014/15.
6. The employer reported contract salary to TFFR after deductions were made for seven members in 2013/14, 2014/15, and 2015/16.
7. The employer reported ineligible para-professional salary for two members in 2014/15.

8. The employer reported ineligible busing salary for one member in 2014/15.
9. The employer did not issue written agreements for summer salary during the audit period.

RECOMMENDATIONS AND CORRECTIVE ACTION

TFFR 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.

Finding 1:

The employer did not actively monitor the service hours for one retiree who had returned to covered employment to ensure that the maximum allowable hours were not exceeded. Actual service hours were not reported for the retiree who returned to covered employment in 2014/15 and 2015/16. 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. **Actual hours reported for re-employed retirees should include the number of hours for teaching, in-staff substitute teaching, and participation in before and/or after school and summer school programs. Extra-curricular and professional development hours are excluded.** Please remember that salary earned for extra-curricular and professional development activities is still reportable. **The employer should establish procedures to monitor days and hours worked for retirees who have returned to covered employment.** No correction will be made to the service hours reported for the member.

Finding 2:

The employer reported salary which was not earned for one member in 2015/16. Due to a programming error the member was paid more than their contracted teaching salary. The employer did not require the member to reimburse the overpaid funds. Therefore no correction will be made to the account. For additional information, please reference the worksheet labeled *Primary Test*.

Findings 3, 4, and 5:

The employer did not report eligible family night, in-service, and summer salary for ten members during the audit period. Salary earned for providing teaching, supervisory, administrative, and extra-curricular services is considered eligible salary and therefore, must be reported to TFFR. Five of the ten member accounts will not be corrected due to the immaterial dollar amount of the error. Five member accounts will be corrected. RIO will notify the members that an adjustment has been made to their accounts and the employer will be billed for the contributions owed with interest. Please reference the worksheets labeled *Primary Test* and *Change in Salaries and Contributions* for additional information.

Finding 6:

The employer reported contract salary to TFFR after deductions were made for seven members in 2013/14, 2014/15, and 2015/16. Insurance premiums and repayments made to the employer were deducted from contract salary. Deductions from eligible salary prior to the calculation of TFFR contributions cause a shortage of salary and contributions to be reported to TFFR. TFFR strongly encourages the employer to contact their school accounting software vendor, Software Unlimited Inc., for assistance in setting up deductions. RIO will notify the seven members that adjustments have been made to their accounts and the employer will be billed for the contributions owed with interest. Please reference the worksheets labeled *Primary Test* and *Change in Salaries and Contributions* for additional information.

Finding 7 and 8:

The employer reported ineligible para-professional salary for two members in 2014/15 and busing salary for one member in 2014/15. These were isolated errors. The two member accounts where the para-professional salary was reported will not be corrected due to the immaterial dollar amount of the error. The busing error will be corrected. RIO will notify the member that an adjustment has been made to their account and the overpaid funds will be refunded to the employer. Please reference the worksheets labeled *Primary Test* and *Change in Salaries and Contributions* for additional information.

Finding 9:

The employer did not issue written agreements for summer salary during the audit period. TFFR recommends that the employer 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 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 To TFFR. Please reference the worksheet labeled *Primary Test* for additional information.

The amount of contributions due with interest is \$2,156.77. An invoice for the amount owed is included. Please reference the worksheet labeled *Salary Correction Summary* for additional information. **Please provide payment for the contributions due and provide a written response detailing the actions to be taken to correct the above findings by July 10, 2017.**

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
2015-2016 Salary Verification
Final Audit Report
June 5, 2017

Background

The accurate reporting of retirement salaries along with member contributions, employer contributions, and service hours is vital to the administration of retirement benefits. It is the responsibility of the Teachers' Fund for Retirement (TFFR) to ensure that retirement salaries reported by participating employers on behalf of members are in compliance with the definition of salary as it appears in the North Dakota Century Code (NDCC) 15-39.1-04(10). Each year TFFR randomly selects a group of member accounts and requests additional information from participating employers for the purpose of verifying reported retirement salaries.

Results Summary

The retirement salaries reported to TFFR in 2015-2016 for fifty member accounts were verified. Reporting errors were identified on fourteen of the fifty member accounts (approximately 28%). Eight member accounts will require corrections due to the material dollar amount of the error. Reported salary will be corrected. Contributions paid in error will be refunded to the participating employer and any contributions owed will be billed to the participating employer with interest. One member account will require a correction to reported service hours. Eleven reporting errors were identified during the verification process. The most frequently cited reporting errors included the reporting of eligible summer school salary in the wrong fiscal year to TFFR and the failure to report eligible in-staff substitute teaching salary to TFFR.

Scope

A majority of audit work occurred during the fourth quarter of fiscal year 2017. The accuracy of retirement salaries, member contributions, and employer contributions reported to TFFR for the 2015-2016 fiscal year were verified. Service hours reported in 2015-2016 were reviewed for reasonableness and eligibility was confirmed via an ESPB search.

Observations, Conclusions and Recommendations

The nine member accounts which require corrections due to the material dollar amount of the error are detailed below. Individual identifying information has been eliminated. The participating employer is identified.

Alexander School (27-002)

The employer did not report an eligible moving stipend to TFFR. Compensation received by a teacher for moving the teachers own classroom to a new classroom or building is reportable to TFFR. The member account will be corrected and RIO will notify the member that adjustments have been made to their account. The participating employer will be billed for contributions owed with interest totaling \$129.80.

Apple Creek Elem School (08-039)

The employer reported salary which was not earned to TFFR. Undocumented and unidentified salary was reported to TFFR. Payroll records and other supporting documentation provided by the participating employer confirm the salary which was reported to TFFR was not earned by or paid to the member. The member account will be corrected and RIO will notify the member that adjustments have been made to their account. The participating employer will receive a refund of contributions paid totaling \$623.14.

Burke Central School (07-036)

The employer reported eligible salary after deductions to TFFR. Deductions for insurance and NDEA dues were taken prior to the calculation of TFFR contributions causing salary and contributions to be under reported to TFFR. The member account will be corrected and RIO will notify the member that adjustments have been made to their account. The participating employer will be billed for contributions owed with interest totaling \$3,159.54.

Lindgerwood School (39-028)

The employer reported incorrect service hours to TFFR. The employer is required to report actual hours worked to TFFR for members who work less than 700 total hours throughout the year. Corrections will be made to the member account and RIO will notify the member that adjustments have been made to their account.

Lonetree Spec Ed Unit (52-200)

The employer reported summer salary in the wrong fiscal year to TFFR. Eligible salary is reportable to TFFR in the fiscal year in which the salary is earned, regardless of when the funds are actually paid. Salary earned for most summer programs will be reported in two fiscal years. Payment received for teaching summer school in June must be reported in the current fiscal year while payments received for teaching summer school in July and August must be reported the following year. The member account will be corrected and RIO will notify the member that adjustments have been made to their account. This correction simply requires the movement of funds already reported from one fiscal year to another with similar contribution rates.

May-Port C-G School (49-010)

The employer reported summer salary in the wrong fiscal year to TFFR. Eligible salary is reportable to TFFR in the fiscal year in which the salary is earned, regardless of when the funds are actually paid. Salary earned for most summer programs will be reported in two fiscal years. Payment received for teaching summer school in June must be reported in the current fiscal year while payments received for teaching summer school in July and August must be reported the following year. The member account will be corrected and RIO will notify the member that adjustments have been made to their account. This correction simply requires the movement of funds already reported from one fiscal year to another with similar contribution rates.

New Public School (53-008)

The employer reported eligible salary for a prior contract year twice to TFFR. Eligible salary is reportable to TFFR in the fiscal year in which the salary is earned, regardless of when the funds are actually paid. Eligible contract salary for the 2014-2015 fiscal year was reported to TFFR in June 2015. The eligible contract salary for the 2014-2015 fiscal year was actually paid in August 2015 (the next fiscal year) and reported to TFFR a second time at the time payment was made. The member account will be corrected and RIO will notify the member that adjustments have been made to their account. The participating employer will receive a refund of contributions paid totaling \$693.43.

Sheyenne Valley Spec Ed (02-201)

The employer reported an ineligible recruitment/sign-on bonus to TFFR. A bonus is defined as an amount paid to a member in addition to regular contract salary which does not increase the member's base rate of pay, is not expected to recur or continue in future fiscal years or is not expected to be a permanent salary increase. A bonus is considered ineligible salary and should not be reported to TFFR. Bonuses include recruitment or contract signing payments as defined in the NDCC 15.1-09-33.1. The member account will be corrected and RIO will notify the member that adjustments have been made to their account. The participating employer will receive a refund of contributions paid totaling \$3,850.46.

Wilmac Special Education (53-200)

The employer reported summer salary in the wrong fiscal year to TFFR. Eligible salary is reportable to TFFR in the fiscal year in which the salary is earned, regardless of when the funds are actually paid. Salary earned for most summer programs will be reported in two fiscal years. Payment received for teaching summer school in June must be reported in the current fiscal year while payments received for teaching summer school in July and August must be reported the following year. The member account will be corrected and RIO will notify the member that adjustments have been made to their account. This correction simply requires the movement of funds already reported from one fiscal year to another with similar contribution rates.

Audit Services recommends that invoice(s) be generated for contributions owed by the participating employers and refunds issued to the participating employers for contributions overpaid. The eight impacted member accounts should be corrected given the material dollar amount of the errors and the members notified accordingly. The same is true for the one member account which requires a service hours correction.

Reporting errors were identified on five additional member accounts. However the reporting errors were of an immaterial dollar amount and therefore the member accounts affected due not require corrections. The five member accounts which do not require corrections due to the immaterial dollar amount of the error are detailed below. Individual identifying information has been eliminated. The participating employer is identified.

Carrington School (16-049)

The employer reported ineligible salary received for attendance at a bus driver workshop to TFFR. Bus driver pay (route, extracurricular, or training) is considered ineligible salary and should not be reported to TFFR.

Devils Lake School (36-001)

The employer did not report eligible 21st Century program salary to TFFR. Once a member is contracted to perform teaching, supervisory, administrative, or extracurricular services, additional payments for performance of duties of a teacher are considered eligible retirement salary and must be reported to TFFR. This includes payments received for participation in before and after school programs which are often referred to as 21st Century Programs.

Hope School (46-010)

The employer did not report eligible in-staff substitute teaching salary to TFFR. In-staff substitute teaching is defined as a licensed contracted teacher, including a re-employed retiree, who performs substitute teaching duties for the contracting employer. Payments received for in-staff substitute teaching are eligible salary and should be reported to TFFR.

Midway School (18-128)

The employer reported an ineligible payment for unused leave to TFFR. Payments for unused sick leave, personal leave, vacation leave, or other unused leave are considered ineligible salary and should not be reported to TFFR.

Munich School (10-019)

The employer did not report eligible in-staff substitute teaching salary to TFFR. In-staff substitute teaching is defined as a licensed contracted teacher, including a re-employed retiree, who performs substitute teaching duties for the contracting employer. Payments received for in-staff substitute teaching are eligible salary and should be reported to TFFR.

Audit Services
North Dakota Retirement and Investment Office
2015-2016 Salary Verification
Final Audit Report - Revised
August 28, 2017

Background

The accurate reporting of retirement salaries along with member contributions, employer contributions, and service hours is vital to the administration of retirement benefits. It is the responsibility of the Teachers' Fund for Retirement (TFFR) to ensure that retirement salaries reported by participating employers on behalf of members are in compliance with the definition of salary as it appears in the North Dakota Century Code (NDCC) 15-39.1-04(10). Each year TFFR randomly selects a group of member accounts and requests additional information from participating employers for the purpose of verifying reported retirement salaries.

Results Summary

The retirement salaries reported to TFFR in 2015-2016 for fifty member accounts were verified. Reporting errors were identified on fourteen of the fifty member accounts (approximately 28%). Eight member accounts will require corrections due to the material dollar amount of the error. Reported salary will be corrected. Contributions paid in error will be refunded to the participating employer and any contributions owed will be billed to the participating employer with interest. One member account will require a correction to reported service hours. Eleven reporting errors were identified during the verification process. The most frequently cited reporting errors included the reporting of eligible summer school salary in the wrong fiscal year to TFFR and the failure to report eligible in-staff substitute teaching salary to TFFR.

REVISED - Results Summary

A participating employer provided additional information in August 2017. The participating employer had been cited for a reporting error in the original audit report issued in June 2017. The additional information provided by the employer indicated that salary which was determined to be eligible for TFFR reporting was in fact ineligible salary. The participating employer was billed for contributions owed with interest and had made payment prior to providing the additional information regarding the salary in question. Upon receipt of the additional information the audit report was revised and a refund was processed. Therefore reporting errors were identified on thirteen of the fifty member accounts (approximately 26%). Seven member accounts required corrections due to the material dollar amount of the error. Ten reporting errors were identified during the verification process. The most frequently cited reporting errors remained the same following the correction.

Scope

A majority of audit work occurred during the fourth quarter of fiscal year 2017. The accuracy of retirement salaries, member contributions, and employer contributions reported to TFFR for the 2015-2016 fiscal year were verified. Service hours reported in 2015-2016 were reviewed for reasonableness and eligibility was confirmed via an ESPB search.

Observations, Conclusions and Recommendations

The nine member accounts which require corrections due to the material dollar amount of the error are detailed below. Individual identifying information has been eliminated. The participating employer is identified.

Alexander School (27-002)

The employer did not report an eligible moving stipend to TFFR. Compensation received by a teacher for moving the teachers own classroom to a new classroom or building is reportable to TFFR. The member account will be corrected and RIO will notify the member that adjustments have been made to their account. The participating employer will be billed for contributions owed with interest totaling \$129.80.

REVISED - Alexander School (27-002)

In August 2017 Alexander Public Schools contacted Audit Services to discuss the moving stipend which was not reported to TFFR. The Alexander Public Schools undertook an abatement project (removal of hazardous materials from floors and ceilings in an older building) during the 2015-2016 school year. Rather than hiring a moving company the teachers, administrators, and other staff volunteered to move all contents (entire building) into multiple modular buildings and then move all contents (entire building) back into the main building once abatement activities had concluded. The school board voted post move to issue \$500 in compensation to any staff member who volunteered. Based on this new information the moving stipend would not be reportable to TFFR and therefore was handled appropriately by the participating employer. A refund of paid contributions was provided to the employer including interest which had been assessed in the amount of \$129.80.

Apple Creek Elem School (08-039)

The employer reported salary which was not earned to TFFR. Undocumented and unidentified salary was reported to TFFR. Payroll records and other supporting documentation provided by the participating employer confirm the salary which was reported to TFFR was not earned by or paid to the member. The member account will be corrected and RIO will notify the member that adjustments have been made to their account. The participating employer will receive a refund of contributions paid totaling \$623.14.

Burke Central School (07-036)

The employer reported eligible salary after deductions to TFFR. Deductions for insurance and NDEA dues were taken prior to the calculation of TFFR contributions causing salary and contributions to be under reported to TFFR. The member account will be corrected and RIO will notify the member that adjustments have been made to their account. The participating employer will be billed for contributions owed with interest totaling \$3,159.54.

Lindgerwood School (39-028)

The employer reported incorrect service hours to TFFR. The employer is required to report actual hours worked to TFFR for members who work less than 700 total hours throughout the year. Corrections will be made to the member account and RIO will notify the member that adjustments have been made to their account.

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**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
AUDIT SERVICES DIVISION
BUDGETED VS. ACTUAL HOURS FOR FISCAL YEAR 2016-2017**

| | 2016-2017 BUDGET HOURS (2 FTE'S) |
|--|---|
| 1. Audit | |
| Retirement Program Audits: | |
| TFRR Employer Audits | 2,051 |
| REA Audit | 40 |
| Benefit Payments Audit | 40 |
| TFRR File Maintenance Audit(s) - Quarterly (20 hours per audit) | 60 |
| Annual Salary Verification Project | 95 |
| TFRR Cost Effective Benefit Payment Audit/Benefit Recalculation(s) | 0 |
| ACL Software Project | 95 |
| | 2,381 |
| Agency and Investment Audits: | |
| Executive Limitation Audit | 95 |
| Investment Performance Summary Review | 95 |
| Schedule of Investment Fees/Investment Management Fees Review | 0 |
| RIO External Auditor Assistance | 25 |
| Audit Services Procedure Manual | 200 |
| | 415 |
| Total Audit Hours: | 2,796 |
| 2. Administrative | |
| Administrative - Staff Mtgs, Time Reports, Email, Records Retention, General Reporting | 450 |
| Audit Committee/SIB/TFRR Attendance and Preparation | 250 |
| Professional Development/CE/General Education | 80 |
| Annual Leave, Sick Leave, and Holidays | 600 |
| Total Administrative Hours: | 1,380 |
| Total Hours for 2016-2017: | 4,176 |

Total Hours for 2016-2017: 4,176

D. Thorsen Total Hours 2016-2017: 2,088

T. Miller Bowley Hours 2016-2017: 2,088

| 1st Quarter Actual Hours | 2nd Quarter Actual Hours | 3rd Quarter Actual Hours | 4th Quarter Actual Hours | 2016- 2017 Actual Hours | Actual vs. Budgeted Hours Over/(Under) |
|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|----------------------------------|--|
| | | | | | |
| 504 | 550 | 579 | 339 | 1,971 | (80) |
| 0 | 0 | 0 | 0 | 0 | (40) |
| 89 | 0 | 0 | 5 | 93 | 53 |
| 26 | 37 | 25 | 4 | 92 | 32 |
| 0 | 0 | 6 | 97 | 103 | 8 |
| 26 | 2 | 0 | 0 | 28 | 28 |
| 0 | 0 | 0 | 0 | 0 | (95) |
| | | | | | |
| 9 | 2 | 74 | 12 | 96 | 1 |
| 0 | 0 | 0 | 0 | 0 | (95) |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 13 | 0 | 0 | 1 | 14 | (11) |
| 15 | 12 | 0 | 0 | 27 | (173) |
| | | | | | |
| 683 | 603 | 683 | 457 | 2,425 | (371) |
| | | | | | |
| 126 | 153 | 152 | 316 | 746 | 296 |
| 63 | 29 | 68 | 43 | 203 | (47) |
| 15 | 20 | 8 | 54 | 97 | 17 |
| 171 | 236 | 129 | 170 | 706 | 106 |
| | | | | | |
| 374 | 438 | 357 | 583 | 1,751 | 371 |
| 1,056 | 1,040 | 1,040 | 1,040 | 4,176 | 0 |
| 25% | 25% | 25% | 25% | 100% | |

MEMORANDUM

TO: State Investment Board (SIB)

FROM: Rebecca Dorwart, SIB Audit Committee Chair

DATE: September 22, 2017

SUBJECT: Fiscal Year End Audit Committee Activities Update
July 1, 2016 to June 30, 2017

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.

The Audit Committee consists of five members selected by the SIB. Three members of the Audit Committee represent the three groups on the SIB (Teachers' Fund for Retirement (TFFR) Board, Public Employees Retirement System (PERS) Board, and elected and appointed officials). The other two members are selected from outside the SIB and will be auditors with at least a Certified Public Accountant (CPA) or Certified Internal Auditor (CIA) designation. Members of the Audit Committee for the 2016 - 2017 fiscal year were:

Rebecca Dorwart, External Member, Chair
Mike Gessner, TFFR Board, Vice Chair/SIB Liaison
Mike Sandal, PERS Board
Cindy Ternes, (Workforce Safety & Insurance designee) Elected and Appointed Officials
Joshua Wiens, External Member

The Audit Committee held four regular meetings during the fiscal year ended June 30, 2017. The meetings occurred on: September 23, 2016, November 17, 2016, February 23, 2017, and May 25, 2017.

Activities of the Audit Committee during the past year included:

- The Committee approved a July 1, 2016 through June 30, 2017 Audit Service work plan. Progress was monitored on a quarterly basis. Audit activities included:
 - Twenty-five TFFR Employer Audits including twenty-two TFFR Compliance Audits, one Not In Compliance (NIC) Review, and two Special Audits. Compliance with the definition of salary as it appears in NDCC 15-39.1-04(10) is reviewed along with service hours and eligibility.
 - Annual Benefit Payment Audit was completed. Deaths, long outstanding checks, and long term annuitants are reviewed to ensure that established policies and procedures are being adhered to by staff.
 - Three TFFR File Maintenance Audits were completed. Changes made to TFFR member account data by RIO employees are reviewed. Refunds and purchases of service credit along with member account information from Member Action Forms are also reviewed.
 - 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. The audit determined the Executive Director/CIO's level of compliance with SIB Governance Manual Executive Limitation policies (A-1 through A-11) for the calendar year ending December 31, 2016.
 - RIO's Audit Services division provided assistance to our external audit partners, CliftonLarsonAllen, LLP, during the financial audit of the RIO as well as the GASB 68 Census Data Audits.
 - Created internship program at the request of the Executive Director/CIO and SIB Audit Committee. Internship lasted 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.
 - Audit Services staff continued to pursue networking and professional development opportunities via the IIA's local chapter. Staff attended bi-annual training seminars and monthly meetings which cover a variety of topics. The Supervisor of Audit Services completed the requirements for a Certified Internal Auditor (CIA) designation.
- The Committee received the results of the RIO financial audit for the fiscal year ended June 30, 2016 from independent auditors, CliftonLarsonAllen, LLP. They issued an unqualified opinion.
 - The Committee reviewed the RIO financial audit plan for fiscal year ended June 30, 2017 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 and budgeted hours for fiscal year July 1, 2017 to June 30, 2018.

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.

MEMORANDUM

TO: State Investment Board (SIB) Audit Committee

FROM: Terra Miller Bowley, Supervisor of Audit Services

DATE: September 22, 2017

SUBJECT: Audit Charter: 2016 - 2017 Review of Responsibilities

On May 19, 2016 the Committee approved revisions to the Charter of the Audit Committee of the North Dakota State Investment Board. This newly revised Charter requires that the Committee confirm annually the review of all responsibilities outlined in the Charter. To achieve this, the Committee requested an annual report which details the responsibilities contained in the Charter and documents activities undertaken by the Committee to meet those responsibilities.

The responsibilities contained in the Charter will appear in regular font, activities undertaken by the Committee to meet those responsibilities will appear in *italic font*.

RESPONSIBILITIES

The RIO's management is responsible for financial and other reporting, internal controls, and compliance with laws, regulations, and ethics. The Committee has the responsibility to provide oversight in the areas of:

- the reliability and integrity of financial and operating information;
- compliance with policies, plans, procedures, pertinent laws and regulations;
- compliance with the Code of Conduct applicable to the SIB, TFFR Board, and RIO employees;
- safeguarding of assets;
- economical and efficient use of resources; and
- effectiveness of achieving desired results from operations.

To this end, the Committee will:

Independent Audit

- Review the independent auditors' proposed audit scope and approach, including coordination of audit effort with RIO's Audit Services staff and any developments in accounting principles and auditing standards that may affect either the financial statements or the audit.
 - *On May 25, 2017 members of the Committee met with representatives from RIO's independent audit firm, CliftonLarsonAllen. The July 1, 2016 to June 30, 2017 Fiscal Year Financial Audit proposed scope and approach was discussed. This included any applicable discussion related to developments in accounting principles or auditing standards that would have an affect on the financial statements or the audit. Coordination between RIO's independent audit firm and RIO's Audit Services is not required during completion of the financial audit.*
- Meet with the independent auditors to discuss any matters that the Committee or auditors believe should be discussed privately (out of the presence of RIO's management and/or Audit Services staff, as appropriate) and review any restrictions on the audit work.

- *In fiscal year 2017 a private meeting was not requested by the Committee or by RIO's independent audit firm, CliftonLarsonAllen. Moving forward, on the advice of legal counsel, to ensure compliance with open records and meeting laws, this practice will be ceased. Any discussions will occur during the course of a regularly scheduled public meeting with all attendees present.*
- Inquire as to any proposed changes in accounting or financial reporting procedures and of any unusual events that could impact the financial statements.
 - *On November 17, 2016 and May 25, 2017 members of the Committee met with representatives from RIO's independent audit firm, CliftonLarsonAllen. RIO's Fiscal and Investment Operations Manager was also present. The Committee was provided the opportunity to engage all parties in discussions related to changes in accounting or financial reporting procedures and unusual events which could impact the financial statements.*
- Review the results of the financial statements report with the independent auditors and the RIO's management, prior to the release of the financial statements report to the SIB and other officials. This review will include the following, as applicable:
 - Any major problems encountered by the independent auditors and the resolution thereof;
 - The effect on the audit of any developments;
 - Any unresolved differences between the independent auditors and the RIO's management;
 - Any other significant comments or recommendations of the independent auditors or the RIO's management;
 - The adequacy of the RIO's internal accounting controls and accounting policies, procedures, and practices; and
 - Understand the scope of independent auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with the RIO's management responses.
 - *On November 17, 2016 the Committee received, reviewed, and approved the June 30, 2016 Financial Audit Report of RIO. On May 25, 2017 the Committee received, reviewed, and approved the 2016 GASB 68 Schedule Audit Report. On both occasions RIO's management, representatives of RIO's independent audit firm, CliftonLarsonAllen, and RIO's Fiscal and Investment Operations Manager were present. Following approval by the Committee, both audit reports were provided to the SIB who subsequently provided their approval at their next regularly scheduled meeting.*
- Consider the effectiveness of the RIO's internal control system, including information technology security and control.
 - *On November 17, 2016 and May 25, 2017 members of the Committee met with RIO's management, representatives from RIO's independent audit firm, CliftonLarsonAllen, and RIO's Fiscal and Investment Operations Manager. The Committee was provided the opportunity to engage in discussions with all parties related to RIO's internal control system, including information technology security and control. On a quarterly basis Audit Services reviews changes made to TFFR member accounts by staff utilizing CPAS generated audit tables. Audit reports are provided at the conclusion of each quarterly audit to the Committee for review and approval. On an annual basis Audit Services verifies the appropriate*

processing of the deaths of TFFR annuitants, the appropriate handling of checks outstanding 60 days or longer, and the active monitoring of long-term annuitants in payment status. An audit report is provided at the conclusion of the audit to the Committee for review and approval.

- Consider whether the financial statements are complete, consistent with information known to committee members, and reflect appropriate accounting principles. This will include the following, as applicable:
 - The accuracy and completeness of the information in other sections of the annual report and related regulatory filings;
 - The significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements; and
 - All matters required to be communicated to the Committee under generally accepted auditing standards with the RIO's management and the independent auditors.

 - *On November 17, 2016 the Committee received, reviewed, and approved the June 30, 2016 Financial Audit Report of RIO. On May 25, 2017 the Committee received, reviewed, and approved the 2016 GASB 68 Schedule Audit Report. On both occasions RIO's management, representatives of RIO's independent audit firm, CliftonLarsonAllen, and RIO's Fiscal and Investment Operations Manager were available to assist the Committee in determining if financial statements were complete, consistent with information known to the Committee, and reflective of appropriate accounting principles.*

- Review non-audit services, if any, performed for the RIO by the independent auditors.
 - *RIO's independent audit firm, CliftonLarsonAllen, did not provide any non-audit services in fiscal year 2017.*

Audit Services

- Consider the effectiveness of the Audit Services function, within The Institute of Internal Auditors' *International Professional Practices Framework for Internal Auditing* consisting of the *Definition of Internal Auditing, Code of Ethics* and the *Standards*.
 - *Audit Services provides individual audit reports, annual work plans, quarterly progress updates, budgeted vs. actual hour comparisons, and other information to the Committee which can be used to gauge the overall effectiveness of the division. To the extent possible, Audit Services conducts its activities in accordance with the International Standards for the Professional Practice of Internal Auditing.*

- Review with the RIO's management and the Supervisor of Audit Services the audit charter, activities, staffing, and organizational structure of Audit Services.
 - *The review of the Charter by the Committee is completed on an annual basis at the first regularly scheduled meeting of the fiscal year. The Committee is provided an update regarding the activities of the Audit Services division on a quarterly basis. RIO management and Audit Services' staff are available during these updates to provide additional information as needed. Neither the Committee nor RIO's management requested a review of the organizational structure and/or staffing of the Audit Services division in fiscal year 2017.*

- Review and approve the annual work plan and all major changes to the plan.
 - *On May 25, 2017 the Committee approved the 2017-2018 Audit Services work plan, budgeted hours, and TFFR employer audit plan as presented by the Supervisor of Audit Services. The Committee has granted the Supervisor of Audit Services the discretion to alter the work plan as needed in pursuit of achieving the primary objective of the Audit Services division which is the completion of third party compliance reviews.*
- Meet with the RIO's Supervisor of Audit Services to discuss any matters that the Committee or Audit Services believes should be discussed privately (out of the presence of RIO's management and/or the independent auditors, as appropriate) and review any restrictions on the audit work.
 - *On February 23, 2017 the Committee met with the Supervisor of Audit Services and RIO's staff auditor out of the presence of RIO's management and independent auditors to discuss any matters deemed appropriate. Moving forward, on the advice of legal counsel, to ensure compliance with open records and meeting laws, this practice will be ceased. Any discussions will occur during the course of a regularly scheduled public meeting with all attendees present.*
- Participate with RIO's management in the appointment and annual evaluation of the Supervisor of Audit Services. Work with RIO's management on any changes in staffing, including the addition, termination, or replacement of auditors, and the approval of salary increases and/or promotions other than those authorized by the legislature.
 - *The annual evaluation for the Supervisor of Audit Services for the review period beginning April 1, 2016 and ending March 31, 2017 was provided to the Committee for review prior to being finalized. No changes were made to Audit Services staffing during fiscal year 2017. No salary increases and/or promotions other than those authorized by the legislature occurred in fiscal year 2017.*

Compliance

- Review compliance by TFFR participating employers as it relates to TFFR laws, rules and policies through the receipt of employer audit results.
 - *The Committee monitors the progress of the TFFR Employer Audit program on a quarterly basis. The Committee is provided a copy of all completed employer audit reports. Additional information is also provided as circumstances develop.*
- Review staff compliance with federal and state laws and North Dakota administrative code as applicable to RIO, the SIB and TFFR Board programs, and the process for communicating the code of conduct to the RIO's staff, and for monitoring compliance through the receipt of the audit results.
 - *The primary purpose of RIO's Audit Services division per the Committee is completion of third party compliance activities. Audit Services allocates approximately 20% of available audit time to the review of staff compliance with internal policies and procedures as well as governing board policies and procedures only. Review of staff is limited to the Retirement Services division and the Executive Director/CIO. The Committee is provided audit results from the limited internal audit activities including TFFR File Maintenance Audits, Benefit*

Payment Audit, and Executive Limitation Audit. RIO's staff is required to affirm a code of conduct on annual basis during the annual performance evaluation cycle and this affirmation is verified during the Executive Limitation Audit.

- Obtain updates from the RIO's management and legal counsel regarding compliance matters, as deemed necessary.
 - *On February 23, 2017 the Committee was provided an update from legal counsel regarding the North Dakota Century Code employer penalty provisions and their implications on the TFFR Employer Audit program.*

Reporting Responsibilities

- Report to the SIB about the Committee's activities, issues, and related recommendations.
 - *Reports regarding the activities, issues, and related recommendations of the Committee were provided to the SIB on October 28, 2016, November 18, 2016, January 27, 2017, February 24, 2017, and May 25, 2017.*
- Provide a written report annually to the SIB, describing the Committee's composition, responsibilities and how they were discharged, and any other information required.
 - *Annual written report describing the Committee's composition, responsibilities, and how those responsibilities were discharged was provided to the SIB on October 28, 2016 for fiscal year 2016. The annual written report will be provided to the SIB on October 27, 2017 for fiscal year 2017.*

Other Responsibilities

- Make recommendations to the North Dakota State Auditor's Office, when appropriate, as it relates to selection, evaluation, and termination of independent auditors.
 - *Communication with the State Auditor's Office regarding the selection, evaluation, and termination of RIO's independent auditors was not conducted and was not deemed necessary during fiscal year 2017.*
- Obtain the information and training needed to enhance the committee members' understanding of the role of Audit Services and the independent auditor, the risk management process, internal controls, and a certain level of familiarity in financial reporting standards and processes so the Committee may adequately oversee.
 - *The primary objective of the Audit Services division as identified by the Committee is the completion of third party compliance audit activities. Board education related to the TFFR Employer Audit program and Audit Services was provided on May 25, 2017.*

- Serve as an open avenue of communication among the SIB, the RIO's management and Audit Services, the independent auditors, and others.
 - *RIO's management, Audit Services staff, and members of the SIB (who serve on the Committee) are present at all regularly scheduled meetings of the Committee. RIO's independent auditors are present at regularly scheduled meetings of the Committee on two occasions during the fiscal year. The Supervisor of Audit Services routinely communicates with the SIB during their regularly scheduled meetings. This arrangement fosters an open avenue of communication among the parties.*
- Serve as an appropriate confidential body for individuals to provide information on potentially fraudulent financial reporting or breaches of internal control.
 - *In April 2017 RIO introduced an anonymous fraud hotline. The Executive Director/CIO, Supervisor of Audit Services, and RIO's legal counsel are listed as the primary recipients of reported incidents of fraudulent financial reporting or breaches of internal control. The Committee is also available to receive such reports should an individual choose not to use the fraud hotline provided by RIO.*
- Inquire of management and Audit Services regarding the procedures in place for the prevention of illegal payments, conflicts of interest, or other questionable practices.
 - *The Committee is welcome to inquire to management and Audit Services regarding the procedures in place for the prevention of illegal payments, conflicts of interest, or other questionable practices whenever deemed necessary. At this time Audit Services is not aware of any inquires made by or concerns of the Committee regarding these matters.*
- Meet with the RIO's management to discuss any matters that the Committee or management believes should be discussed privately (out of the presence of Audit Services staff and/or the independent auditors, as appropriate) and review any restrictions on the audit work.
 - *On February 23, 2017 the Committee met with RIO's Management out of the presence of Audit Services staff and independent auditors to discuss any matters deemed appropriate. Moving forward, on the advice of legal counsel, to ensure compliance with open records and meeting laws, this practice will be ceased. Any discussions will occur during the course of a regularly scheduled public meeting with all attendees present*
- Perform other activities related to this charter as requested by the SIB.
 - *The SIB made no requests of the Committee during fiscal year 2017.*
- Institute and oversee special investigations as needed.
 - *No special investigations were instituted or needed during fiscal year 2017.*
- Review any other reports the RIO issues that relates to the Committee's responsibilities.
 - *Audit Services is aware of no other reports issued during fiscal year 2017 which relate to the Committee's responsibilities.*

- Review and assess the adequacy of the Committee charter annually, requesting the SIB approval for proposed changes.
 - *The review of the Charter is included on the agenda for the Committee's September 22, 2017 meeting. Moving forward this item will be included on the agenda for the first regularly scheduled meeting of the fiscal year.*

- Confirm annually the review of all responsibilities outlined in this charter.
 - *The review of responsibilities outlined in the Charter and confirmation of their achievement is on the agenda for the Committee's September 22, 2017 meeting. Moving forward this will be included on the agenda for the first regularly scheduled meeting of the fiscal year.*

MEMORANDUM

TO: State Investment Board (SIB) Audit Committee

FROM: Terra Miller Bowley, Supervisor of Audit Services

DATE: September 22, 2017

SUBJECT: Audit Charter: 2016 - 2017 Review

Per the Charter of the Audit Committee of the North Dakota State Investment Board the Committee must review and assess the adequacy of the charter annually, requesting SIB approval for any changes made. Included is a copy of the Charter approved on May 19, 2016. Please review the document and come prepared to discuss any desired changes, revisions, additions, etc.

On February 23, 2017 RIO's management was notified by RIO's legal counsel that the current practice of meeting with RIO's independent auditors, RIO's management, and RIO's audit staff independently, out of the presence of other parties, puts the Committee at risk of violating North Dakota's open records and meeting laws. Current open records and meeting laws prevent public boards from asking individuals to exit public meetings except in specific situations such as when an executive session has been properly notified and invoked. Staff believes it is in the best interest of the Committee to cease this practice moving forward, this will require an update to three sections of the current Charter. The sections in question have been highlighted for your convenience.

If the Committee chooses to make revisions to the current Charter, the revised document will be sent to legal counsel for review, returned to the Committee for final approval, and then forwarded to the SIB for approval.

**CHARTER OF THE
AUDIT COMMITTEE OF THE
NORTH DAKOTA STATE INVESTMENT BOARD**

PURPOSE

The Audit Committee (the Committee) is a standing committee of the North Dakota State Investment Board (SIB) created to fulfill its fiduciary oversight responsibilities of the North Dakota Retirement and Investment Office (RIO) and to serve as a communications link among the SIB, the RIO's management and Audit Services staff, independent auditors, and others.

The Committee will assist with the integrity of the RIO's financial reporting process and system of internal controls, the RIO's compliance with legal and regulatory requirements, the performance of the RIO's Audit Services function and independent auditors, and the RIO's management of risks in the Committee's areas of responsibility.

AUTHORITY

The Committee is authorized to provide oversight to the Audit Services function and the independent audit for the RIO. These activities provide assurance that RIO's financial condition and results of operations are accomplished in accordance with the RIO's policies and procedures and legal and regulatory requirements. The Committee may investigate any activity of the RIO and may retain persons as necessary from within or outside the RIO having special competence to assist the Committee in the accomplishment of its responsibilities.

The RIO's Supervisor of Audit Services will be the staff member reporting administratively to the Executive Director/Chief Investment Officer and functionally to the Committee.

The RIO's management will supervise the administrative activities of the Audit Services function and independent audit activities such as securing contracts, paying fees, maintaining official reports, and other appropriate activities.

COMPOSITION

The Committee will consist of five members, selected by and approved by the SIB. Three members of the Committee will represent the three groups on the SIB: Teachers' Fund for Retirement (TFFR) Board, Public Employees Retirement System (PERS) Board, and elected and appointed officials, and two members selected from outside of the SIB and the RIO. The SIB should select committee members who are both independent and financially literate.

Membership on the Committee will be for one year or termination of term on the SIB. Vacancies will be filled by the SIB at the first scheduled meeting following the vacancy. There will be no limit to the number of terms served on the Committee.

The Committee will elect a Chair, a Vice Chair, and a liaison. The Chair will preside at all meetings of the Committee. In the absence of the Chair, the Vice Chair will perform the duties of

the Chair. The liaison will report annually to the SIB on the results of the independent audit and at least four times a year to the SIB and TFFR board on the activities of the Committee and other pertinent information.

The Committee may form, and delegate authority to, subcommittees when it deems appropriate.

MEETINGS

The Committee will meet generally four times a year, with authority to convene additional meetings, as circumstances require or to adequately fulfill all the obligations and duties as outlined in this charter.

Meeting agendas will be prepared by the Supervisor of Audit Services and approved by the Committee Chair, unless otherwise directed by the Committee and will be provided to the Committee members along with briefing materials before the scheduled committee meeting.

Committee members are expected to attend each meeting, in person or via tele- or video-conference. The RIO's executive management and Supervisor of Audit Services and others necessary to provide information and to conduct business will attend meetings. The Committee may invite staff of the RIO, auditors or others to attend meetings, as necessary. The Committee may meet separately with the staff of the RIO, auditors and others. The Committee may, at its discretion, elect to meet without the presence of the RIO's executive management and/or Supervisor of Audit Services or others. The Committee may hold executive sessions as allowed under state law.

The Committee will act only on the affirmative vote of three of the committee members at a meeting. To conduct business, a quorum will be three members of the Committee. Should a quorum not be present before a scheduled meeting or during a meeting, the Chair will announce the absence of a quorum and the members will disburse. Meetings unable to transact business for lack of a quorum are not considered meetings. Meeting minutes will be prepared by the RIO, or as otherwise directed by the Committee. Approved meeting minutes of the Committee will be submitted to the SIB.

RESPONSIBILITIES

The RIO's management is responsible for financial and other reporting, internal controls, and compliance with laws, regulations, and ethics. The Committee has the responsibility to provide oversight in the areas of:

- the reliability and integrity of financial and operating information;
- compliance with policies, plans, procedures, pertinent laws and regulations;
- compliance with the Code of Conduct applicable to the SIB, TFFR Board, and RIO employees;
- safeguarding of assets;
- economical and efficient use of resources; and
- effectiveness of achieving desired results from operations.

To this end, the Committee will:

Independent Audit

- Review the independent auditors' proposed audit scope and approach, including coordination of audit effort with RIO's Audit Services staff and any developments in accounting principles and auditing standards that may affect either the financial statements or the audit.
- Meet with the independent auditors to discuss any matters that the Committee or auditors believe should be discussed privately (out of the presence of RIO's management and/or Audit Services staff, as appropriate) and review any restrictions on the audit work.
- Inquire as to any proposed changes in accounting or financial reporting procedures and of any unusual events that could impact the financial statements.
- Review the results of the financial statements report with the independent auditors and the RIO's management, prior to the release of the financial statements report to the SIB and other officials. This review will include the following, as applicable:
 - Any major problems encountered by the independent auditors and the resolution thereof;
 - The effect on the audit of any developments;
 - Any unresolved differences between the independent auditors and the RIO's management;
 - Any other significant comments or recommendations of the independent auditors or the RIO's management;
 - The adequacy of the RIO's internal accounting controls and accounting policies, procedures, and practices; and
 - Understand the scope of independent auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with the RIO's management responses.
- Consider the effectiveness of the RIO's internal control system, including information technology security and control.
- Consider whether the financial statements are complete, consistent with information known to committee members, and reflect appropriate accounting principles. This will include the following, as applicable:
 - The accuracy and completeness of the information in other sections of the annual report and related regulatory filings;
 - The significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements; and

- All matters required to be communicated to the Committee under generally accepted auditing standards with the RIO's management and the independent auditors.
- Review non-audit services, if any, performed for the RIO by the independent auditors.

Audit Services

- Consider the effectiveness of the Audit Services function, within The Institute of Internal Auditors' *International Professional Practices Framework for Internal Auditing* consisting of the *Definition of Internal Auditing, Code of Ethics and the Standards*.
- Review with the RIO's management and the Supervisor of Audit Services the audit charter, activities, staffing, and organizational structure of Audit Services.
- Review and approve the annual work plan and all major changes to the plan.
- Meet with the RIO's Supervisor of Audit Services to discuss any matters that the Committee or Audit Services believes should be discussed privately (out of the presence of RIO's management and/or the independent auditors, as appropriate) and review any restrictions on the audit work.
- Participate with RIO's management in the appointment and annual evaluation of the Supervisor of Audit Services. Work with RIO's management on any changes in staffing, including the addition, termination, or replacement of auditors, and the approval of salary increases and/or promotions other than those authorized by the legislature.

Compliance

- Review compliance by TFFR participating employers as it relates to TFFR laws, rules and policies through the receipt of employer audit results.
- Review staff compliance with federal and state laws and North Dakota administrative code as applicable to RIO, the SIB and TFFR Board programs, and the process for communicating the code of conduct to the RIO's staff, and for monitoring compliance through the receipt of the audit results.
- Obtain updates from the RIO's management and legal counsel regarding compliance matters, as deemed necessary.

Reporting Responsibilities

- Report to the SIB about the Committee's activities, issues, and related recommendations.
- Provide a written report annually to the SIB, describing the Committee's composition, responsibilities and how they were discharged, and any other information required.

Other Responsibilities

- Make recommendations to the North Dakota State Auditor's Office, when appropriate, as it relates to selection, evaluation, and termination of independent auditors.
- Obtain the information and training needed to enhance the committee members' understanding of the role of Audit Services and the independent auditor, the risk management process, internal controls, and a certain level of familiarity in financial reporting standards and processes so the Committee may adequately oversee.
- Serve as an open avenue of communication among the SIB, the RIO's management and Audit Services, the independent auditors, and others.
- Serve as an appropriate confidential body for individuals to provide information on potentially fraudulent financial reporting or breaches of internal control.
- Inquire of management and Audit Services regarding the procedures in place for the prevention of illegal payments, conflicts of interest, or other questionable practices.
- Meet with the RIO's management to discuss any matters that the Committee or management believes should be discussed privately (out of the presence of Audit Services staff and/or the independent auditors, as appropriate) and review any restrictions on the audit work.
- Perform other activities related to this charter as requested by the SIB.
- Institute and oversee special investigations as needed.
- Review any other reports the RIO issues that relates to the Committee's responsibilities.
- Review and assess the adequacy of the Committee charter annually, requesting the SIB approval for proposed changes.
- Confirm annually the review of all responsibilities outlined in this charter.

DATE OF CREATION OF COMMITTEE AMENDMENTS: December 14, 1993

DATE AUDIT COMMITTEE CHARTER ADOPTED AND APPROVED: June 24, 1994

REVISED: November 22, 1996, February 13, 1997, November 6, 2001, May 19, 2006, May 18, 2007, June 26, 2009, May 19, 2016.

RIO OFFICE LOCATION CHANGE

In order to provide better accessibility for visitors, increase security of TFFR data and staff, and improve the physical office environment, the Retirement and Investment Office has moved to a new location at 3442 East Century Avenue in Bismarck.

Mail should still be addressed to PO Box 7100, Bismarck ND 58507-7100.

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 2017-18 school year, ESPB has declared all teacher content areas as critical shortages. Administrator positions are not critical shortage areas for 2017-18.

IN-STAFF SUBBING CONTRACT PERIOD CLARIFIED

The TFFR Board recently approved a policy to clarify and provide guidance for determining the contract period for in-staff subbing for active members and re-employed retirees.

In-staff subbing is defined as substitute teaching duties performed by a contracted teacher for the contracting TFFR employer.

If the active member or re-employed retiree has a contract or written agreement with the employer for full or part time work, TFFR will view the beginning and ending calendar dates on the contract as the contract term to determine the contract period, *unless the contract period is otherwise specifically detailed in the contract*.

If substitute teaching duties are performed during the contract period, those duties are considered in-staff subbing, and retirement contributions are required to be paid. The in-staff subbing hours are reported as compensated hours for active members and are counted toward the annual hour limit for re-employed retirees.

If substitute teaching duties are performed outside of the contract period, those duties are not considered in-staff subbing, and retirement contributions are not paid. The subbing hours are not reported for active members and are not counted toward the annual hour limit for re-employed retirees.

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 of one year or more in employment with your school district. 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 when a teacher is 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.

GASB STATEMENT 68 UPDATE

The audited fiscal year [2016 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 2017 financials.

TFFR FORMS

- Please submit a [Notification of School District Change form](#) if there are any changes in demographic or contact (superintendent/business manager) information.
- If you are employing a new teacher or have teachers with a change in their name or address, please submit a [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 have been updated. Please discard old forms and use the version currently on the [website](#).

TFFR EMPLOYER GUIDE AND MEMBER HANDBOOK UPDATED

The [TFFR Employer Guide](#) and [Member Handbook](#) were recently updated. Please visit our website to reference these user friendly education tools that can answer many questions about the TFFR retirement plan.

MEMBER NEWSLETTER DISTRIBUTION

Today, much TFFR information is printed and distributed including member newsletters, outreach program materials, and annual statements. Due to budget constraints and the ability to provide information electronically, we are in the process of transitioning away from traditional mailing and distribution methods to more cost effective electronic methods.

Active member newsletters will no longer be printed and mailed to each member's home address. Instead, we will be asking employers to distribute the member newsletters by email beginning this fall. School district business managers will be sent a short message from TFFR and a link to the newsletter that can be easily forwarded to your employees. Inactive and retired member newsletters will continue to be mailed to home addresses for the time being. Once TFFR Member Online is fully operational and we have member email addresses, newsletters can be emailed directly to members.

Thank you for your help in implementing this cost saving measure.

GROUP BENEFITS COUNSELING SITES SCHEDULED

The 2017-18 Group Benefits Counseling sites have been scheduled. The location details can be found in our [Member Services Directory](#). Please help us inform your teachers about this valuable program by emailing the above link to your employees.



TFFR EMPLOYER AUDIT INFORMATION CORNER

Terra Miller Bowley
Supervisor of Audit Services

GASB 67 & 68 Census Data Audits

In 2012 the Governmental Accounting Standards Board (GASB) issued two new standards for pension accounting and financial reporting. The new standards, GASB 67 and 68, improve pension information and increase transparency, consistency, and comparability of pension information. The new standards require pension plan auditors to test the completeness and accuracy of census data provided by participating employers.

Each July TFFR's pension plan auditor, CliftonLarsonAllen (CLA), selects seventeen participating employers to be included in the census data audit. The selected participating employers will receive notification via email. Employers will be required to provide a master payroll file which includes information such as name, birth date, and gross wages for all employees. CLA auditors will review the information provided and select a sample of individuals for further investigation. CLA will request supporting documentation from the participating employer which may include I-9 forms, employee contracts, and human resource forms.

At the conclusion of the audit TFFR will issue the *Schedule of Pension Amounts by Employer* and the *Schedule of Collective Pension Amounts* which are provided to assist employers and their auditors with GASB 68 compliance. For additional information reference the GASB website at www.gasb.org or the TFFR website at www.nd.gov/rio/TFFR.

REPORT SALARY IN FISCAL YEAR EARNED

We often get asked why it is so important to report salary in the fiscal year earned, not when paid. TFFR pension benefits are calculated using a high five or high three average salary. If salary was reported when paid, it would create salary inconsistencies and salary spiking which is not allowed. This type of salary reporting inconsistency has a direct impact on the amount of retirement benefits that would be paid to a retiree for life.

For example:

| Teacher salaries reported in fiscal year earned | | Same teacher salaries reported in fiscal year paid | |
|--|--|---|--|
| FY14 | \$54,000 (\$44,000 Base + \$10,000 Extra Duty) | FY14 | \$54,000 (\$44,000 Base + \$10,000 Extra Duty) |
| FY15 | \$56,000 (\$46,000 Base + \$10,000 Extra Duty) | FY15 | \$56,000 (\$46,000 Base + \$10,000 Extra Duty) |
| FY16 | \$58,000 (\$48,000 Base + \$10,000 Extra Duty) | FY16 | \$48,000 (\$48,000 Base + \$0 Extra Duty) |
| FY17 | \$60,000 (\$50,000 Base + \$10,000 Extra Duty) | FY17 | \$70,000 (\$50,000 Base + \$20,000 Extra Duty) |

High 3 used for pension calculation:
 $\$60,000 + \$58,000 + \$56,000 = \$174,000$

High 3 used for pension calculation:
 $\$70,000 + \$56,000 + \$54,000 = \$180,000^*$

*Higher final average salary will result in a higher monthly pension benefit for life.

We recognize how much easier TFFR reporting would be if salary was reported in the year paid, but we hope this example helps explain the reasoning behind the requirement to report salary in the fiscal school year earned.