



ND STATE INVESTMENT BOARD AUDIT COMMITTEE MEETING

Thursday September 27, 2018 – 10:00 AM
Retirement and Investment Office
3442 E Century Ave, Bismarck, ND 58507

AGENDA

1. Call to Order and Approval of Agenda – Chair (committee action) (5 minutes)
2. Approval of May 24, 2018 Minutes – Chair (committee action) (5 minutes)
3. Election of Chair, Vice Chair, and Liaison – Chair (committee action) (5 minutes)
4. 2018 - 2019 Affirmation of Code of Conduct Policy – Cody Schmidt (information) (5 minutes)
5. 2017 - 2018 Year End Audit Activities Report – Sara Sauter (committee action) (10 minutes)
6. 2017 - 2018 Audit Committee Report to SIB – Sara Sauter (committee action) (5 minutes)
7. Audit Charter: 2017 - 2018 Review of Responsibilities – Sara Sauter (committee action) (20 minutes)
8. Fiduciary Responsibility of the SIB Audit Committee – Anders Odegaard (education) (30 minutes)
9. Audit Committee Charter and Audit Services Charter – Sara Sauter (committee action) (10 minutes)
10. 2018 – 2019 Agency Risk Assessment and Audit Workplan – Sara Sauter (committee action) (30 minutes)
11. Other – Next SIB Audit Committee Meeting

North Dakota Retirement and Investment Office
3442 E Century Ave, Bismarck, ND 58503
Thursday November 15, 2018 @ 3:00 PM

12. 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 24, 2018 MEETING**

COMMITTEE MEMBERS PRESENT: Rebecca Dorwart, Chair
Yvonne Smith, PERS Board, Vice Chair
Mike Burton, TFFR Board
Cindy Ternes, Workforce Safety & Insurance
Josh Wiens, External Representative

STAFF PRESENT: Connie Flanagan, Fiscal & Inv Op Mgr
Bonnie Heit, Assist to the Audit Committee
David Hunter, ED/CIO
Fay Kopp, Dep ED/CRO
Sara Sauter, Audit Svs Suprv
Shelly Schumacher, Retirement Program Mgr
Dottie Thorsen, Internal Auditor

GUEST: Rob Lech, TFFR Board (TLCF)
Anders Odegaard, Attorney General's Office
Thomas Rey, CliftonLarsonAllen

CALL TO ORDER:

Ms. Dorwart called the State Investment Board (SIB) Audit Committee meeting to order at 3:03 p.m. on Thursday, May 24, 2018, at the Retirement and Investment Office (RIO), 3442 E Century Ave., Bismarck, ND.

A quorum was present for conducting business.

AGENDA:

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. WIENS AND CARRIED BY A VOICE VOTE TO APPROVE THE AGENDA FOR THE MAY 24, 2018, MEETING AS DISTRIBUTED.

AYES: MS. SMITH, MS. TERNES, MR. WIENS, MR. BURTON AND MS. DORWART
NAYS: NONE
MOTION CARRIED

MINUTES:

IT WAS MOVED BY MS. SMITH AND SECONDED BY MS. TERNES AND CARRIED BY A VOICE VOTE TO ACCEPT THE FEBRUARY 22, 2018, MINUTES.

AYES: MR. BURTON, MS. SMITH, 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, 2017 to June 30, 2018.

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, 2017. An unmodified clean opinion was issued on the statements.

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

AYES: MS. TERNES, MR. WIENS, MS. SMITH, MR. BURTON, AND MS. DORWART

NAYS: NONE

MOTION CARRIED

AUDIT ACTIVITIES REPORT:

Ms. Sauter reviewed third quarter activities of the Audit Division for the period of January 1, 2018 - March 31, 2018.

Nine TFFR Employer Audits had been completed, three audits were in progress, five were pending and not yet started, and three audit notifications had been sent out.

The TFFR File Maintenance Audit for the July 1, 2017 through September 30, 2017 quarter was completed and the report was issued in April 2018.

Internal Audit and Retirement Services developed a joint questionnaire which was sent to eight Regional Education Associations (REA). The responses to the questionnaire will give Internal Audit and Retirement Services a better understanding of how the REA's are reporting to TFFR. Staff will be following up on the information received and developing a plan to address any issues.

The Executive Limitations Audit was completed for the 2017 calendar year and issued in February 2018. Audit Services was sufficiently satisfied that the Executive Director/CIO was in compliance with the SIB Governance Manual Executive Limitation policies A-1 through A-11.

Ms. Sauter joined RIO January 1, 2018, and has spent time getting up to speed with the agency, Internal Audit, reading manuals, regulations, attending Business Manager training, and getting to know the staff.

Ms. Sauter has also been attending board meetings and a Securities Litigation meeting. Biweekly meetings were held with the Deputy Director/CRO and multiple meetings with the Executive Director on various topics.

Audit Services continues to participate in the IIA Central NoDak Chapter for professional development.

IT WAS MOVED BY MS. SMITH AND SECONDED BY MS. TERNES AND CARRIED BY A VOICE VOTE TO ACCEPT THE THIRD QUARTER INTERNAL AUDIT ACTIVITIES REPORT FOR THE PERIOD OF JANUARY 1, 2018 - MARCH 31, 2018.

AYES: MS. TERNES, MR. WIENS, MS. SMITH, MR. BURTON, AND MS. DORWART

NAYS: NONE

MOTION CARRIED

EDUCATION:

Ms. Sauter presented an educational segment on internal auditing - its purpose and the benefits of an internal audit program.

WORK PLAN/BUDGETED HOURS/EMPLOYER RISK ASSESSMENT:

Ms. Sauter presented the 2018-19 work plan for the Audit Committee's consideration. The work plan was modified from previous years to address the Internal Audit Divisions allotted time within RIO - particularly between the two entities of RIO, the State Investment Board (SIB) and the Teachers' Fund for Retirement (TFFR).

Ms. Sauter informed the Audit Committee she would like to conduct an internal control assessment and agency risk assessment neither of which has ever been formally documented at RIO. With the changing agency portfolio and the emerging risks, Audit Services is recommending moving to a risk-based audit plan. To address the emerging risks and ensure effective and efficient policies and procedures, Audit Services proposed an audit work plan that would address the time spent on TFFR and RIO as a whole. Ms. Sauter stated an agency risk assessment should be completed on RIO's overall internal control environment and then prioritize the work being performed by Audit Services based on the agency risk assessment. RIO's investment oversight function has grown and changed in the past ten years and the primary function of RIO's Internal Audit Division for many years has been TFFR Compliance Audits. RIO has no legal responsibility to test the reporting by the school districts. The testing has been completed as a service for those school districts and members participating in the TFFR plan.

Discussion followed on accepting the work plan as presented or if a risk assessment should be conducted first.

Discussion also took place on staying with the direction the Audit Committee has been operating under for the past 20 years and enhancing those areas before moving into other areas.

After discussion,

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. WIENS AND CARRIED BY A VOICE VOTE TO APPROVE THE INTERNAL AUDIT DIVISION MOVING FORWARD WITH A RISK ASSESSMENT AS DEEMED NECESSARY TO ADJUST THE FUTURE WORK PLAN TO BE MORE PRODUCTIVE AND MORE RISK BASED AS NEEDED.

AYES: MS. SMITH, MS. TERNES, MR. WIENS, MR. BURTON, AND MS. DORWART

NAYS: NONE

MOTION CARRIED.

Ms. Sauter is to present a new work plan based on the results of the agency risk assessment for the Audit Committee's consideration at the September 27, 2018, meeting.

EMPLOYER AUDIT REPORTING PROCESS:

Ms. Kopp informed the Audit Committee that Internal Audit and Retirement Services have been having discussions on issuing all future TFFR employer compliance audit reports to both the Superintendent/Director and School Board/Governing Body President. TFFR audit reports would be submitted for acceptance by the full school board at a regular meeting of the governing body. Auditing best practices recommends that all audit reports be issued to the governing body of the entity being audited. Currently the reports are issued to the Superintendent/Director and a copy is sent to the Business Manager.

The Audit Committee felt the change was in the best interest of the governing body.

A TFFR Board policy amendment may be needed based on feedback from the Audit Committee and the TFFR Board. Ms. Kopp will follow-up with the Audit Committee.

MEETING SCHEDULE:

Ms. Sauter presented a proposed meeting schedule for the period of July 1, 2018 - June 30, 2019.

IT WAS MOVED BY MS. SMITH AND SECONDED MR. BURTON AND CARRIED BY A VOICE VOTE TO ACCEPT THE AUDIT COMMITTEE MEETING SCHEDULE FOR THE PERIOD OF JULY 1, 2018 - JUNE 30, 2019.

AYES: MR. BURTON, MS. SMITH, MS. TERNES, MR. WIENS, MS. DORWART

NAYS: NONE

MOTION CARRIED

COMMITTEE MEMBERSHIP:

SIB Audit Committee membership is for a one-year term beginning July of each fiscal year. Audit Committee members are to notify Ms. Sauter by next Thursday, May 31, 2018, if they are interested in serving for the period of July 1, 2018 - June 30, 2019.

OTHER:

The next Audit Committee meeting is scheduled for Thursday, September 27, 2018, at 3:00 pm at the Retirement and Investment Office, 3442 East Century Ave., Bismarck, ND.

With no further business to come before the Audit Committee, Ms. Dorwart adjourned the meeting at 4:51 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: Sara Sauter, Supervisor of Audit Services

DATE: September 27, 2018

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: July 18, 2018

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: Sara Sauter, Supervisor of Audit Services

DATE: July 26, 2018

SUBJECT: 2017-2018 Year End Audit Activities Report

Audit coverage was based on the July 1, 2017 through June 30, 2018 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 the 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. Due to staff turnover, all goals were not meant.

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.
 - **2017-2018 ACTUAL ACTIVITIES:**
 - Eleven (11) TFFR Employer Audits were completed during fiscal year 2017. This included:
 - Ten (9) Compliance Audits
 - Two (2) Special Audits
 - One (1) Compliance Audits were in progress at the conclusion of fiscal year 2018.
 - Five (5) Compliance Audits were pending but not yet started at the conclusion of fiscal year 2018.
- **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.
 - **2017-2018 ACTUAL ACTIVITIES:**
 - The Benefit Payment Audit was completed on October 30, 2017.
- **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.
 - **2017-2018 ACTUAL ACTIVITIES:**
 - The Third Quarter FY 2016-17 File Maintenance Audit was completed on August 1, 2017.
 - The Fourth Quarter FY 2016-17 File Maintenance Audit was completed on October 2, 2017.
 - The First Quarter 2017-18 File Maintenance Audit was completed May 11, 2018.

- **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.
 - **2017-2018 ACTUAL ACTIVITIES:**
 - The Annual Salary Verification Project was completed on June 25, 2018.

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.
 - **2017-2018 ACTUAL ACTIVITIES:**
 - The Executive Limitation Audit was completed on February 22, 2018.
 - The Executive Director/CIO Effectiveness Survey was completed on March 26, 2018.
 - The SIB Executive Review Committee Survey was completed on April 18, 2018.
- **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.
 - **2017-2018 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.
- **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.
 - **2017-2018 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 attended the Association of Public Pension Fund Auditor's spring conference seminar which focused on a variety of public auditing topics.
 - Audit Staff attended the IIA's fall seminar which focused on Continuous Auditing Data Analytics with Root Cause Analysis and IT Auditing for Non IT Auditors.

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 2017-2018.

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
AUDIT SERVICES DIVISION
FISCAL YEAR 2017 -2018**

	FY 2018 1st QTR	FY 2018 2nd QTR	FY 2018 3rd QTR	FY 2018 4th QTR	FY 2018 TOTAL
Audit Activities					
Retirement Program Audits:					
TFFR Employer Audit Program	332.25				1314
<i>Anamoose Public School District</i>	32				32
<i>Fort Totten Public School District</i>	22				22
<i>Fort Yates Public School District</i>	97				97
<i>Gackle-Streeter Public School District</i>	20				20
<i>Glenburn Public School District</i>	18				18
<i>Kindred Public School District</i>	20	17.50			37
<i>ND School for the Blind</i>	21				21
<i>Scranton Public School District</i>		72.25	78.75		151
<i>Scranton Appeal</i>				24.00	24
<i>Tioga Public School District</i>	60	50.00			110
<i>Anamoose, Ft. Totten, Ft. Yates, ND. School for Blind</i>		173.50			174
<i>Alexander Public School District</i>			3.00		3
<i>Parshall Public School District</i>			31.00	181.50	213
<i>Grenora</i>			20.00	36.50	57
<i>General Employer Audits</i>		39.25	45.25	24.25	109
<i>Audit Peer Reviews/TFFR Meeting(s)/Audit Planning/Audit Notifications</i>	91		71.25	66.00	229
Benefit Payments Audit	162	8.25			170
TFFR File Maintenance Audit(s)	47	22.75	50.50	29.75	150
Annual Salary Verification Project	2			134.25	136
REA Project			35.00	2.00	37
Audit Continuous Improvement Project - Employer Audit Program - Census Data Audit File	11				11
Agency Administrative and Investment Audits:					
Executive Limitation Audit	9	10.25	166.25	12.00	197
Risk Assessment				4.00	4
RIO External Auditor Assistance	14			3.00	17
Administrative Activities					
Administrative - Staff Mtgs, Time Reports, Email, Records Retention, General Reporting, Performance reviews	166	217.00	157.00	211.25	751
Audit Committee/SIB/TFFR Attendance and Preparation	43	33.50	111.25	179.00	367
Supervisor Training			129.75		130
Professional Development/CE/General Education	10	23.25	4.00	25.00	63
Annual Leave, Sick Leave, and Holidays	198	196.50	145.75	119.75	660
Quarterly Total:	1041	864	1048.75	1052.25	4006

Total Hours for 2017-2018	4,160
Actual Hours for 2017-18	4,006
Total Hours for two Supervisors	1,926
D. Thorsen Total Hours 2017-2018	2,080
T. Miller Bowley Hours 2017-2018 (Left employment with RIO October 31, 2017)	865
Sara Sauter 2017-2018 (Started employment with RIO January 1, 2018)	1061

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
GRENORA PUBLIC SCHOOL
June 11, 2018**

PURPOSE

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

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

SCOPE

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

A representative sample of TFFR accounts was selected from members of the District for the 2014/15 through 2016/17 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. See Schedule 1 - Primary Test.

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

The Primary Test did not disclose any reporting procedure used by the District that would affect a large portion of the population for fiscal years 2014/15 through 2016/17. 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 2016/17 reported by the Grenora Public Schools were generally in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted.

1. The Employer reported salary after various insurances or flex spending deductions for twelve members in 2015/16 and thirteen in 2016/17.
2. The Employer failed to report eligible advisor salary to TFFR for one member in 2016/17.
3. The Employer had two members with incorrect salary reported in 2016/17.

RECOMMENDATIONS AND CORRECTIVE ACTION

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

Finding 1:

Due to programming issues, the employer reported salary after deducting various insurances and/or flex spending for eleven members in 2015/16 and thirteen in 2016/17. This caused salary and contributions to be under-reported to

TFFR. The member accounts will be corrected and RIO will notify the members that adjustments have been made to their account. Please reference the worksheets labeled *Primary Test, Change in Salaries and Contributions* and *Salary Correction Summary* for additional information.

Finding 2:

The employer failed to report eligible advisory salary to TFFR for one member. A member's earnings for contracted teaching, supervisory, administrative, and extracurricular services are considered eligible retirement salary and are subject to payment of member and employer contributions. This includes salary earned for contracted summer school teaching. The member account will be corrected and RIO will notify the member that adjustments have been made to their account. Please reference the worksheets labeled *Primary Test, Change in Salaries and Contributions* and *Salary Correction Summary* for additional information.

Finding 3:

The employer reported two members' salaries incorrectly. In discussions with the Business Manager, it is unclear what error occurred. Both the Auditor and Business Manager reconciled to the same amount that was in disagreement of what had already been reported to TFFR. Please reference the worksheets labeled *Primary Test, Change in Salaries and Contributions* and *Salary Correction Summary* for additional information.

The amount of contributions due with interest is \$13,475.88. An invoice for the amount of contributions and interest due was provided with a copy of the audit report to the Business Manager. It is the responsibility of the employer to collect and refund contributions due from or owed to the members. Please reference the worksheets labeled *Change in Salaries and Contributions* and *Salary Correction Summary* for additional information. **Please provide a written response detailing actions to be taken to correct the findings noted in the audit report by August 1, 2018.**

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.



Sara Sauter
Supervisor of Audit Services

Enclosures

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
PARSHALL PUBLIC SCHOOLS
2016/17 FISCAL YEAR AUDIT
JUNE 26, 2018**

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

After considering the previous TFFR Compliance Audit dated June 28, 2016 and review of salaries reported in 2016/17 Employer Summary Report, Retirement Services requested Audit Services to complete a one hundred percent review of salaries reported by Parshall Public Schools for fiscal year 2016/17.

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). Audit Services used the individual teacher contracts and the payroll files for the examination of salaries. Member salaries, member contributions, and employer contributions were reviewed for the thirty-three members reported to TFFR in 2016/17. 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.

FINDINGS

In our opinion, for the time period covered in the audit, the retirement salaries for fiscal year 2016/17 reported by the Parshall Public Schools are generally in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (10).

The following findings were noted during the audit:

1. The employer reported contract salary incorrectly for sixteen members.
2. The employer did not report eligible extra-curricular salary for eight members.
3. The employer did not report driver's education salary for one out-of-district teacher.
4. The employer did not report eligible extra-curricular salary for a special education teacher.
5. The employer reported summer salary in the wrong fiscal year for one member.
6. The employer reported service hours incorrectly for two retired teachers who returned to covered employment.

RECOMMENDATIONS AND CORRECTIVE ACTION

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is www.nd.gov/rio/TFFR/Publications. The District should also work with their software vendor to make necessary changes that would eliminate two of the errors noted in the report.

Finding 1:

The employer reported contract salary amounts incorrectly for a total of sixteen members. Seven member accounts will not be corrected because the shortages of salary were immaterial. The employer was reporting salary after deductions were made. This error was corrected by the employer after the month of October. Due to a member closing their account, no corrections will be made to salary for the eighth member's account.

The remaining eight member accounts will be corrected. Most of these errors occurred at the close of the fiscal year. Members were paid the appropriate salary amounts, but their final payments were not reported to TFFR. The error caused a shortage of contributions. RIO will notify the members that adjustments were made to their accounts. The employer will be

billed with interest for contributions owed. Please reference the worksheets labeled *Primary Test, Changes in Salaries and Contributions* and *Salary Correction Summary* for additional information.

TFFR strongly recommends the employer to contact their school accounting software vendor, Software Unlimited, Inc., for assistance with setting up the close-out dates for the year-end reporting to ensure all salary paid is reported to TFFR.

Finding 2:

The employer did not report eligible extra-curricular salary for a total of eight members. Two of the member's accounts will not be corrected because the amounts were immaterial (subbing and workshop salary). The third member's account will not be corrected because he is no longer a member of TFFR (baseball and subbing).

The remaining five accounts will be corrected. Extra-curricular salary not reported was athletic director, pep band, football, subbing, track, and workshop salaries. RIO will notify the members that adjustments have been made to their accounts. The employer will be billed with interest for contributions owed. Please reference the worksheets labeled *Primary Test, Changes in Salaries and Contributions*, and *Salary Correction Summary* for additional information.

TFFR strongly recommends the employer to contact their school accounting system vendor, Software Unlimited, Inc., for assistance in adjusting the existing pay codes. Currently, the employer utilizes one pay code for both eligible and ineligible extra-curricular salary which is contributing to reporting errors. Separate pay codes should be set up for eligible salary and ineligible salary.

Finding 3:

The employer did not report eligible driver's education salary for one out-of-district teacher. Since the out-of-district teacher had a written agreement with the Parshall Public Schools and a current license with the Educations Standards and Practices Board, the salary was reportable to TFFR. The member's account will be corrected and RIO will notify the member that adjustments have been made. The employer will be billed for contributions and interest owed. Please reference the worksheets labeled *Primary Test, Changes in Salaries and Contributions*, and *Salary Correction Summary* for additional information.

Finding 4:

In order to report a teacher to TFFR, the teacher must have a written agreement with the District and be licensed by the Educations Standards and Practices Board. The Parshall Public Schools contracted with a special education unit for the services of one teacher. This teacher attended professional development and earned elementary power hour salary from the Parshall Public Schools. The third-party agreement with the special education unit meets the definition of a written agreement: therefore, the professional development and elementary power hour salary is reportable to TFFR. The member's account will require corrections and RIO will notify the member that adjustments have been made. The employer will be billed for the contributions and interest owed. Please reference the worksheets labeled *Primary Test, Changes in Salaries and Contributions*, and *Salary Correction Summary* for additional information.

Finding 5:

The employer reported summer vocational education salary in the wrong fiscal year. Salary is reportable to TFFR in the fiscal year the salary was earned. Salary earned in May/June was reported to TFFR in the month that payment occurred (July). When the employers pay and report May/June salary in July salary, the employer needs to immediately notify TFFR that the salary needs to be moved to the appropriate fiscal year. Service hours were not affected because the member earned a full year of service both years. The member's account will require corrections and RIO will notify the member that adjustments have been made. Please reference the worksheets labeled *Primary Test, Changes in Salaries and Contributions*, and *Salary Correction Summary* for additional information.

Finding 6:

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

The amount of contributions due with interest is \$13,241.95. An invoice for the amount of contributions due is included. It is the responsibility of the employer to collect contributions due from the members. Please reference the worksheet labeled

Salary Correction Summary for additional details. **Please provide a written response by August 3, 2018 detailing how the employer intends to correct the above findings and confirm that software corrections have been made.**

The findings and recommendations in this 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. All accounts are also reviewed as members notify the TFFR of their intent to retire.



Dottie Thorsen
Auditor

Enclosures

Audit Services
North Dakota Retirement and Investment Office
2016-2017 Salary Verification
Final Audit Report
June 25, 2018

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 2016-2017 for fifty member accounts were verified. Reporting errors were identified on three of the fifty member accounts (approximately 6%). Two member accounts required corrections due to the material dollar amount of the error. Reported salary was corrected. Any contributions owed was billed to the participating employer with interest. One member's account had a reporting error that was of an immaterial dollar amount and therefore the member account affected did not require corrections. The three employers did not report eligible in-staff substitute teaching salary to TFFR.

Scope

A majority of audit work occurred during the fourth quarter of fiscal year 2018. The accuracy of retirement salaries, member contributions, and employer contributions reported to TFFR for the 2016-2017 fiscal year were verified. Service hours reported in 2016-2017 were reviewed for reasonableness and eligibility was confirmed via an ESPB search.

Observations, Conclusions and Recommendations

The two 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.

Manning Elementary School (08-045)

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. The participating employer was billed for contributions owed with interest totaling \$130.07.

Maple Valley School (09-004)

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. The participating employer was billed for contributions owed with interest totaling \$141.49.

Retirement Services generated the invoices for contributions owed by the participating employers. The two impacted member accounts have been corrected and the members were notified accordingly.

The third reporting error identified was an immaterial dollar amount; therefore, the member's account did not require a correction. Individual identifying information has been eliminated. The participating employer is identified.

Wyndmere School (39-042)

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.

MEMORANDUM

TO: State Investment Board (SIB)

FROM: SIB Audit Committee

DATE: September 28, 2018

**SUBJECT: Fiscal Year End Audit Committee Activities Update
July 1, 2017 to June 30, 2018**

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 2017 - 2018 fiscal year were:

Rebecca Dorwart, External Member, Chair
Yvonne Smith, PERS Board, Vice Chair
Mike Gessner, TFFR Board, SIB Liaison
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, 2018. The meetings occurred on: September 22, 2017, November 16, 2017, February 22, 2018, and May 24, 2018.

Activities of the Audit Committee during the past year included:

- The Committee approved a July 1, 2017 through June 30, 2018 Audit Service work plan. Progress was monitored on a quarterly basis. Audit activities included:
 - Eleven TFFR Employer Audits including nine TFFR Compliance Audits 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, 2017.
 - 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.
 - 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, 2017 from independent auditors, CliftonLarsonAllen, LLP. They issued an unqualified opinion.
 - The Committee reviewed the RIO financial audit plan for fiscal year ended June 30, 2018 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, 2018 to June 30, 2019.

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: Sara Sauter, Supervisor of Audit Services

DATE: September 27, 2018

SUBJECT: Audit Charter: 2017 - 2018 Review of Responsibilities

The Audit Committee (Committee) Charter of the North Dakota State Investment Board 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 24, 2018 members of the Committee met with representatives from RIO's independent audit firm, CliftonLarsonAllen. The July 1, 2017 to June 30, 2018 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 effect 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 2018 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 16, 2017 and May 24, 2018 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 16, 2017, the Committee received, reviewed, and approved the June 30, 2017 Financial Audit Report of RIO. On May 24, 2018 the Committee received, reviewed, and approved the 2017 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 16, 2017 and May 24, 2018 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 16, 2017, the Committee received, reviewed, and approved the June 30, 2017 Financial Audit Report of RIO. On May 24, 2018, the Committee received, reviewed, and approved the 2017 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 2018.*

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 2018.*

- Review and approve the annual work plan and all major changes to the plan.
 - *On May 24, 2018 the Committee approved for a risk assessment to be performed and risk based audit plan to be presented at the next Committee meeting.*
- 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 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.
 - *There was a change in staff for the Audit Supervisor position so there was no annual evaluation performed.*

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. 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 22, 2018, the Committee was provided an education on Open Records Meetings and Records by the North Dakota Attorney General's Office.*

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 September 22, 2017, October 27, 2017, November 17, 2017, February 23, 2018, and May 25, 2018.*
- 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 27, 2017 for fiscal year 2017. The annual written report will be provided to the SIB on October 26, 2018 for fiscal year 2018.*

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 2018.*
- 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 Open Records and Meetings was received February 22, 2018. Board education on "What is Internal Audit?" was received on May 24, 2018.*
- 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.

- *RIO has 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 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 2018.*
- Institute and oversee special investigations as needed.
 - *No special investigations were instituted or needed during fiscal year 2018.*
- 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 2018 which relate to the Committee's responsibilities.*
- Review and assess the adequacy of the Committee charter annually, requesting the SIB approval for proposed changes.
 - *On September 22, 2017, the Committee reviewed and approved of the Charter.*
- Confirm annually the review of all responsibilities outlined in this charter.
 - *On September 22, 2017, the Committee reviewed and approved of the Charter.*

North Dakota Audit Committee Members Responsibilities

Purpose

- An Audit Committee has been established as a standing committee of the State Investment Board (SIB). The primary objective of the internal audit function is to assist the SIB and management in the effective discharge of their responsibilities.

What is Your Role?

- 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. Audit Services will assist RIO in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Fiduciary Duties

- Duty of Loyalty
- Exclusive Benefit Rule (Duty of Loyalty)
- Duty of Impartiality (Duty of Loyalty)
- Maintaining Independence (Duty of Loyalty)
- Prohibited Transactions (Duty of Loyalty)
- Adherence to Trust (Duty of Loyalty)
- Co-Trustees (Duty of Loyalty)
- Duty of Prudence (Duty of Care)
- Duty of Administration (Duty of Care)
- Duty of Skill (Duty of Care)
- Duty of Delegation (Duty of Care)
- Prudent Investor Rule

Specific Application of Fiduciary Duties

- Administration, Monitoring, and Suggesting Improvements to the Plan

Audit Committee Charter

- Maintaining the Confidentiality of Records

See NDCC § 12.1-13-01:

Class C Felony for a public servant to knowingly release confidential information.

Conflicts of Interest

- Obvious: Direct, Substantial, Personal, Pecuniary.
- Less Obvious: Favors, Gifts, Special Treatment.
- The appearance of impropriety.
- Refer to Code of Conduct for Questions

Breach

- Potential ramifications for a breach of fiduciary duties and code of conduct.
 - Board reprimand
 - Loss of Position
 - Civil Liability
 - Criminal Liability

See NDCC § 12.1-11-06:

Class A misdemeanor for public servant to refuse to perform any duty imposed by law.

Member Liability

- Common Question: Am I personally liable for decisions I make as a Committee member?

Definitions: N.D.C.C. Ch. 32-12.2

- "State employee" means every present or former officer or employee of the state or any person acting on behalf of the state in an official capacity, temporarily or permanently, with or without compensation. The term does not include an independent contractor.
- "State" includes an agency, authority, board, body, branch, bureau, commission, committee, council, department, division, industry, institution, instrumentality, and office of the state.
- "Scope of employment" means the state employee was acting on behalf of the state in the performance of duties or tasks of the employee's office or employment lawfully assigned to the employee by competent authority or law.

Operate within scope of your employment

- NDCC § 32-12.2-03(1-3)

“Actions against state employees operating within the scope of the employee’s employment must be brought against the state.”

“A state employee may not be held liable in the employee’s personal capacity for acts or omissions of the employee occurring within the scope of employee’s employment.”

- NDCC § 32-12.2-03(5)

“A judgment in a claim against the state is a complete bar to any claim by the claimant, resulting from the same injury, against the employee whose act or omission gave rise to the claim.

Who represents me?

- NDCC § 32-12.2-03(6)

“The state shall defend any state employee in connection with any civil claim or demand, whether groundless or otherwise, arising out of an alleged act or omission occurring within the scope of the employee's employment if the employee provides complete disclosure and cooperation in the defense of the claim or demand and if the employee requests such defense in writing within ten days after being served with a summons, complaint, or other legal pleading asserting a cause of action against the state employee arising out of a civil claim or demand.”

Can I choose Who represents me?

- NDCC § 32-12.2-03(7)

“For any claim brought under this chapter, a state employee may choose to hire the employee's own separate defense counsel to represent the state employee in the litigation. If the state employee chooses to hire separate defense counsel, subsections 4 and 6 do not apply to the state employee in that litigation and the state will not indemnify, save harmless, or defend the state employee nor pay for the state employee's defense or any judgment against the state employee.”

Who pays if they win?

- NDCC § 32-12.2-03(4)

“Except for claims or judgments for punitive damages, the state shall indemnify and save harmless a state employee for any claim, whether groundless or not, and final judgment for any act or omission occurring within the scope of employment of the employee if the employee provides complete disclosure and cooperation in the defense of the claim or demand and if the employee has given written notice of the claim or demand to the head of the state entity that employs the state employee and to the attorney general within ten days after being served with a summons, complaint, or other legal pleading asserting that claim or demand against the state employee.”

QUESTIONS

MEMORANDUM

TO: State Investment Board (SIB) Audit Committee

FROM: Sara Sauter, Supervisor of Audit Services

DATE: September 27, 2018

SUBJECT: Audit Committee Charter Revisions and Audit Services Charter

The Audit Committee is a standing committee of the State Investment Board (SIB) authorized under 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 financial and other reporting practices, internal controls, and compliance with laws, regulations, and ethics. SIB Governance Policy B-6 requires the Audit Committee to operate under the terms of a charter approved by the SIB.

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. The revised Audit Committee Charter has the verbiage removed.

The Audit Committee charter was also revised to reflect the governance manual and include a section on risk management.

An Audit Services Charter is proposed and is a best practice according International Standards for the Professional Practice of Internal Auditing (Standards). The purpose of an Audit Services Charter is to demonstrate its importance and contribution to the organization through a process audits and other activities designed to add value, at the same time that it avoids activities that have the potential to undermine its objectivity and independence.

The revised Audit Committee Charter and Audit Services charter have already been reviewed by legal counsel. If the Committee chooses to make revisions to the current Charter and approve the Audit Services Charter, it will then be 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. Audit Services will assist RIO in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

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~~Executive Director 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, and a Vice Chair, ~~and a liaison~~. The Supervisor of Audit Services will act as liaison to the SIB. 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. Meetings will be conducted in accordance with NDCC 44-04-17.1.~~ 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 risk-based audit work plan and all major changes to the plan.
- Bring to attention of the Board any internal audit issues the Committee determines significant and appropriate for Board consideration.
- ~~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~~ the Executive Director in the appointment and annual evaluation of the Supervisor of Audit Services. Work with ~~RIO's management~~ the Executive Director 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.

Risk Management

- Obtain information and/or training to enhance the Committee's understanding of organization and its related risk management processes.
- Review the adequacy of the organization's policy on risk management.
- Review the effectiveness of the organization's system for assessing, monitoring, and controlling significant risks or exposures.
- Review management's reports on risks and related risk mitigations.
- Hire outside experts and consultants in risk management, as necessary, subject to full board approval.

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.
- Review the process for communicating and monitoring compliance with the code of ethics, code of conduct, and fraud policies.
- Review the findings of any examinations by regulatory agencies, any auditor observations related to compliance, and the responsiveness and timeliness of management's actions to address the findings/recommendations.
- 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.

AUDIT SERVICES CHARTER

NORTH DAKOTA STATE INVESTMENT BOARD

MISSION

Audit Services to provides an independent, objective assurance and consulting activity designed to add value and improve North Dakota Retirement and Investment Office (RIO's) operations. Audit Services will assist RIO in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

OBJECTIVES AND SCOPE

Objectives

Auditing Services

The objectives of Audit Services are to provide independent assurance to the Audit Committee and management that RIO's assets are safeguarded, operating efficiency is enhanced, and compliance is maintained with prescribed laws, and Board and management policies. Included in the objectives are independent assessment of RIO's risk awareness and management of risk, reliability and integrity data, and achievement of the organization's goals and objectives.

Consulting and Advisory Services

Audit Services' objectives for the consulting and advisory services are to provide management with assessments and advice for improving processes that will advance the goals and objectives of the organization. In particular, the objectives are to provide the assessments and advice on the front-end of projects so that risks may be identified, managed and internal controls may be designed at the beginning of a project.

Scope

The scope of Audit Services work is to conclude whether the RIO's framework of risk management, internal control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

1. Programs are operating within the highest fiduciary standards and are directed toward the requirements defined in the Federal and State laws, regulations, local government ordinances and rules, and the policies and procedures of RIO.
 2. Programs and processes are consistent with industry best practices, using the best public and private examples as benchmarks, as practicable.
 3. Significant legislative or regulatory issues impacting the RIO are recognized and addressed appropriately.
 4. Significant financial, managerial, and operating information is accurate, reliable, and timely.
 5. Resources are acquired economically, used efficiently, and adequately protected.
 6. Existing policies and procedures are appropriate and updated.
 7. Operations, processes and programs are consistent with established missions, objectives and goals, and whether they are being carried out as planned.
 8. Risks within and outside the organization are appropriately identified and managed.
 9. Quality service and continuous improvement are fostered in the RIO's control process.
-

10. Contractors, including third-party administrators, are meeting the objectives of the contracts, while in conformance with applicable laws, regulations, policies, procedures and best practices.
11. Operations, processes, or programs are reviewed at the request of the Audit Committee or management.

Improvements to member service, management of risks, internal control, governance, profitability, and the organization's effectiveness, efficiency and image may be identified during audits. This information will be communicated to the Audit Committee and to appropriate levels of management.

AUTHORITY

The State Investment Board (SIB) established the Audit Committee to have oversight of the internal audit function of this organization. Audit Services is established by the Audit Committee of the SIB pursuant to best practices. This Charter and all future amendments to it are to be approved by the Audit Committee through a majority vote. This Charter shall be reviewed periodically and updated as required by the Audit Committee. The State Investment Board will have final approval this Charter.

ACCESS

The Supervisor of Audit Services and designated audit staff, as appropriate, are granted authority for full, free and unrestricted access to all of the organization's functions, records, files and information systems, personnel, contractors, physical properties, and any other item relevant to the function, process or division under review. All contracts with vendors shall contain the RIO's standard audit language enabling the organization's internal auditors and other auditors and specialists to have access to relevant records and information. All of the employees of the organization are required to assist the staff of Audit Services in fulfilling their audit functions and fiduciary duties.

The Supervisor of Audit Services shall have free and unrestricted access to the Chairman of the Audit Committee, the Audit Committee, and the Chairman, and members of the State Investment Board. The Supervisor of Audit Services shall also have free and unrestricted access to the Executive Director, Management and all personnel, contractors and vendors of the organization, and employers, members, retirees and beneficiaries of the organization.

CONFIDENTIALITY

Documents and information given to Audit Services shall be handled in the same prudent and confidential manner as by those employees normally accountable for them. The Supervisor of Audit Services shall ensure that internal audit staff is instructed in the handling and safeguarding of confidential information.

INDEPENDENCE AND OBJECTIVITY

The Supervisor of Audit Services reports functionally to the Audit Committee and reports administratively to the Executive Director.

The Supervisor of Audit Services shall freely discuss audit policies, audit findings and recommendations, audit follow-up, guidance issues and other matters as necessary. The standards of professional audit independence will be discussed with the Audit Committee

periodically. The standards of independence used as benchmarks will be those of the organizations mentioned in the Standards of Audit Practice below.

RESPONSIBILITIES AND ACCOUNTABILITY

The Supervisor of Audit Services is responsible for the following in order to meet the mission, objectives and scope of this Charter and Audit Services:

1. Select, train, develop and retain a competent audit staff that collectively has the abilities, knowledge, skills, experience, expertise and professional certifications necessary to accomplish the mission, objectives and scope of this Charter. Provide opportunity and support for staff obtaining professional training, professional examinations, and professional certifications.
2. Establish policies for conducting its activities and directing its technical and administrative functions according to the organization's policies and direction provided by the Audit Committee, and professional standards.
3. Conduct an annual risk assessment and produce a flexible audit plan that will accomplish the mission, objectives and scope of this Charter. The plan will include some unassigned hours in order to provide flexibility for changing condition; shall in part be based upon risks and control concerns identified by Management. This plan will be periodically updated as necessary.
4. Prepare a time budget that is complementary to the implementation of the audit plan.
5. Implement the annual audit plan, as approved, including, as appropriate, any plan amendments, special tasks or projects requested by Management and the Audit Committee.
6. Coordinate with audit clients to finalize recommendations for improvement and identify implementation timelines. Audit Services Staff shall consider costs and benefits while formulating and discussing their recommendations.
7. Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
8. Conduct periodic follow-up reviews to evaluate the adequacy of Management's corrective actions.
9. Issue periodic reports to the Audit Committee and Management summarizing results of audit activities, and summarizing the status of follow-up activities.
10. Provide periodic summaries of consulting and advisory activities to the Audit Committee.
11. Attend all Audit Committee meetings, and ensure attendance of additional staff and attendance by auditees as appropriate.
12. Obtain a peer review by other internal auditors or complete a self-assessment, no less frequently than every five (5) years as mandated by the IIA's *International Standards for the Professional Practice of Internal Auditing*.
13. Inform the Audit Committee of emerging trends and successful practices in internal auditing.
14. Assist in the investigation of significant suspected fraudulent activities within the organization and notify the Audit Committee, the Executive Director and Management, as appropriate, of the results.
15. Report to the Audit Committee on all activities and associated costs of work performed by the external financial statement auditors.

16. Consult with the organization's management, as requested, on potential policy and procedure changes.
17. Participate, in an advisory capacity, in the planning, design, development, and implementation and modification phases of major information related systems to determine whether:
 - Adequate controls are incorporated in the systems;
 - Adequate risk management techniques have been utilized;
 - Thorough systems testing is performed at appropriate stages;
 - Systems documentation is complete and accurate; and
 - The intended purpose and objectives of the system implementation or modifications have been met.
18. Participate in professional audit organizations by attending meetings, joining the governing boards, presenting speeches and papers, and networking with other professionals. Network with internal audit staff of other public pension systems to learn and exchange best practices information. Participate in other professional organizations related to the mission of the organization.
19. Work in coordination with other departments as point of contact for handling all matter related to audits, examinations, investigations or inquiries of the State Auditor or other appropriate State or Federal Auditors.
20. Review the organization's fraud policy and ethics policy periodically.

STANDARDS OF AUDIT PRACTICE

Audit Services shall follow the professional standards of relevant professional organizations. These include, but are not limited to, the following:

- International Standards for the Professional Practice of Internal Auditing and the Code of Ethics of Institute of Internal Auditors (IIA).
- American Institute of Certified Public Accountants (AICPA) Professional Standards and Code of Ethics, as applicable.
- Generally Accepted Government Auditing Standards (GAGAS) from the United States General Accounting Office (GAO), as applicable.

DATE AUDIT SERVICES CHARTER ADOPTED AND APPROVED:

MEMORANDUM

TO: State Investment Board (SIB) Audit Committee

FROM: Sara Sauter, Supervisor of Audit Services

DATE: September 27, 2018

SUBJECT: Summary of Manager's Risk Assessment Survey

To start the risk assessment, process each manager fill out a short questionnaire of their division. In the questionnaire, they were asked to rate the top three risk areas that should be considered for audits within the organization (1 being the highest risk area). The following areas is what was identified by management.

1.
 - Investment Monitoring (investment managers, returns, fees, risk management oversight)
2.
 - Succession Planning
 - Manual Processes
 - Cybersecurity
3.
 - Data Integrity
 - Segregation of Duties
 - Divisions not feeling empowered to make decisions and/or overruled by other divisions

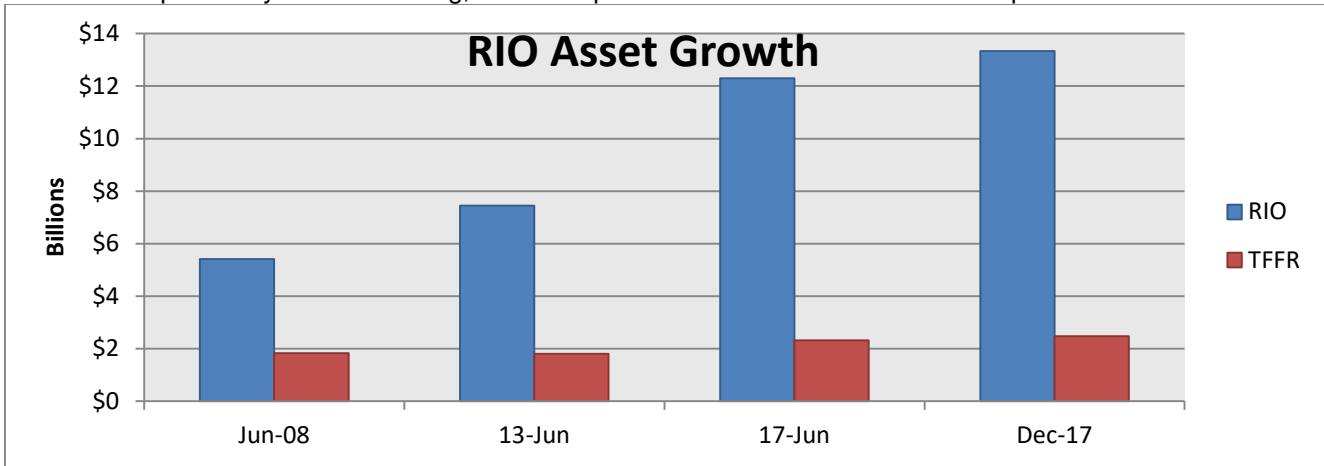
**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
 AUDIT SERVICES DIVISION
 BUDGETED HOURS FOR THE FISCAL YEAR JULY 1, 2018 TO JUNE 30, 2019**

	2018 -2019 BUDGET HOURS (2 FTE'S)
Primary Audit Responsibilities - Total Hours Allocated: 2,680	
Teachers' Fund for Retirement (TFFR) Employer Audits	1,080
TFFR Audit Notifications	
TFFR Compliance Audits	
TFFR Not in Compliance (NIC) Reviews	
REA Audit	
Annual Salary Verification Project	
Teachers' Fund for Retirement (TFFR) File Maintenance Audits	30
Teachers' Fund for Retirement (TFFR) Refund and Purchases Audit	90
TFFR Cost Effective Benefit Payment Audit	140
Investment Audits	690
Investment Manager Due Diligence Audit	
Investment Performance Audit	
Cash Management and Rebalancing Audit	
Executive Limitation Audit	160
SIB Customer Satisfaction Survey	
ED/CIO Effectiveness Survey	
Executive Limitations Audit CY 2018	
SIB Executive Review Committee Survey (If Requested)	
Internal Control Assessment	120
Agency Risk Assessment	150
Quarterly Portfolio Monitoring Testing	120
Special Projects (ex. Board Self-Assessment)	40
External Auditor Assistance	60
GASB 68 Census Data Audit Notifications	
	2,680
% of Available Hours Allocated to Primary Audit Responsibilities	64%
Primary Administrative Responsibilities - Total Hours Allocated: 1,480	
Annual Leave, Sick Leave, and Holidays	632
Staff Meetings, Reporting, Email, and Records Retention	450
SIB Audit Committee, SIB, and TFFR Board Meetings	300
Preparation and Attendance	
Annual Audit Planning	80
Professional Development	18
	1,480
% of Available Hours Allocated to Primary Administrative Responsibilities	36%
Total 2018-2019 Budget Hours	4,160
Total Budget Hours for 2018 - 2019	4,160
Budget Hours for D. Thorsen	2,080
Budget Hours for S. Sauter	2,080

MEMORANDUM

TO: State Investment Board (SIB) Audit Committee
FROM: Sara Sauter, Supervisor of Audit Services
DATE: September 27, 2018
SUBJECT: 2018 - 2019 Audit Services Workplan

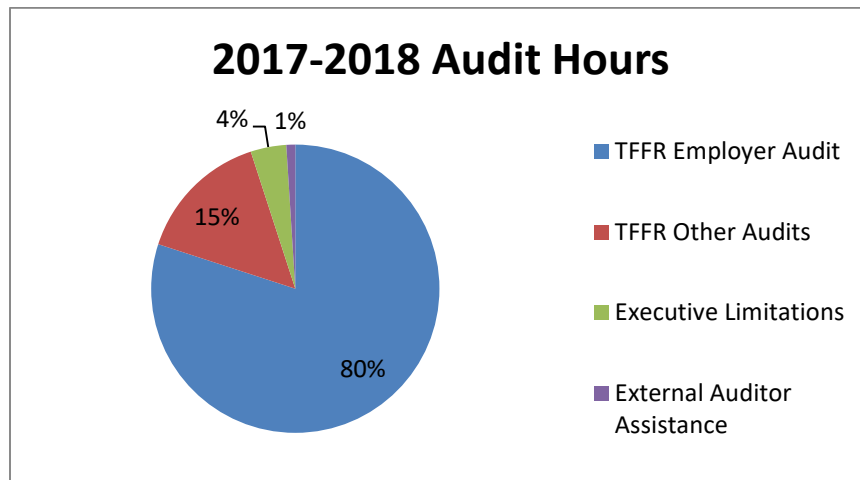
Following the May 24, 2018 SIB Audit Committee meeting, the Audit Committee approved for an agency risk assessment to be completed and a risk based audit plan to be presented at the September meeting. Historically, Audit Services has just been doing TFFR Compliance Audits. The graphs below, show the asset growth RIO has had over the past 9½ years. Following, the time spent on TFFR audits and the time spent on other audits.



The following information shows the amount of audit hours that was spent on the TFFR side of the agency.

Percentage of Audit Hours spent on TFFR Audits

- 2012-13 99% (3,064 Total Audit Hours 3,039 TFFR Audit Hours)
- 2013-14 100% (1,222 Total Audit Hours 1,222 TFFR Audit Hours) audit was short staffed
- 2014-15 91% (2,146 Total Audit Hours 1,946 TFFR Audit Hours) audit was short staffed
- 2015-16 94% (2,654 Total Audit Hours 2,503 TFFR Audit Hours)
- 2016-17 94% (2,425 Total Audit Hours 2,288 TFFR Audit Hours)



Since fiscal year 2012-13, 136 employer audits have been completed resulting in a net shortage of \$159,439.74. For five of these employers, there was a shortage of contributions of \$201,201.28 (Langdon, Fort Totten, Fort Yates, Kindred, and Dunseith). The net shortage of contributions of \$159,434.74 represents 0.0064% of the TFFR fund. It should also be noted since fiscal year 2009-2010, 207 Employer Audits were completed. 93% of these 207 audits were in compliance.

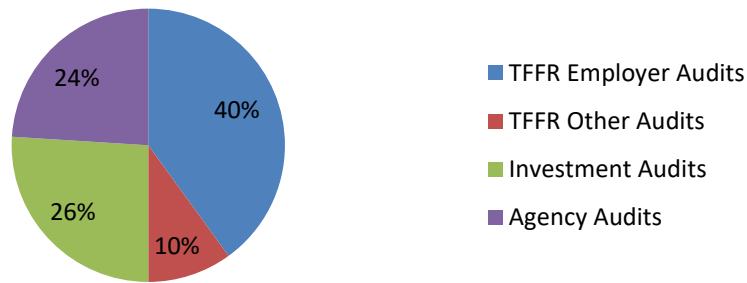
With the changing agency portfolio, the main risk every manager of RIO identified was investment monitoring (e.g. investment manager due diligence, returns, fees, risk management oversight). The following major concerns were manual processes, segregation of duties, succession planning, and cybersecurity. An overall agency risk assessment was completed which highlighted risk in many areas, outside of just TFFR Employer Audits. The proposed audit plan focus on areas of risk the risk assessment identified.

The following information details the proposed workplan for Audit Services for 2018 - 2019. This workplan represents what Audit Services anticipates will be accomplished in the upcoming fiscal year, however needs and priorities may change and this workplan may require adjustments. Any anticipated changes will be discussed with the SIB Audit Committee and RIO Management as they are identified. Frequency, hours, and reporting are addressed where applicable.

Audit Services will allocate resources to the following audit activities during fiscal year 2019:

Primary Audit Responsibilities	
Total Hours Allocated: 2,680	
Teachers' Fund for Retirement (TFFR) Employer Audits	40%
<ul style="list-style-type: none"> • TFFR Audit Notifications • TFFR Compliance Audits • TFFR Not in Compliance (NIC) Reviews • Annual Salary Verification Project 	
TFFR File Maintenance Audit and TFFR Refund and Purchase Audit	4.5%
TFFR Cost Effective Benefit Payment Audit	5%
Investment Audits	26%
Internal Control Assessment	4.5%
Agency Risk Assessment	6%
Quarterly Portfolio Monitoring Testing	4.5%
Special Projects (ex. Board Self-Assessment)	1.5%
Executive Limitation Audit	6%
<ul style="list-style-type: none"> • SIB Customer Satisfaction Survey • ED/CIO Effectiveness Survey • Executive Limitations Audit CY 2017 • SIB Executive Review Committee Survey (If Requested) 	
External Auditor Assistance	2%
<ul style="list-style-type: none"> • GASB 68 Census Data Audit Notifications 	

Proposed 2018-2019 Audit Hours



TEACHERS' FUND FOR RETIREMENT (TFFR) EMPLOYER AUDITING:

The primary purpose of employer auditing is to determine if the retirement salaries and contributions reported to TFFR by a participating employer are in compliance with the definition of salary as it appears in the North Dakota Century Code (N.D.C.C. § 15-39.1-04 (10)). Reported service hours and eligibility for TFFR membership are also verified. It should be noted that RIO has no legal responsibility to test the reporting by the employers. This testing is done as a service for the TFFR members.

TFFR Audit Notifications are sent to participating employers throughout the fiscal year based on anticipated production levels with approximately two to three employers notified at one time. Audit notifications are sent electronically to key personnel including the superintendent and business manager.

The 2018-2019 audit plan includes performing TFFR Employer Audits on the ten largest employers on a five-year cycle. The ten largest employers employ over half of the participants reported to TFFR program. A total of 10 employer audits are scheduled for the 2018-2019. It is the intention of Audit Services to have 2 – 4 audits in progress with 2 audits pending but not yet started at any given time. Audit Services is working with Retirement Services on transitioning more into an overall sampling process and moving away from traditional cycles.

The Annual Salary Verification Project is intended to supplement other auditing activities. This project increases the number of participating employers included in overall audit activities and reinforces to our participating employers the importance of timely and accurate reporting. A total of 50 member accounts from 43 different employers will be randomly selected for further verification from all available participating employers except those employers who meet the following criteria: currently being audited by Audit Services, have been notified of an upcoming audit by Audit Services, have been audited by Audit Services in the last twelve months, were selected for a GASB 68 Census Data Audit, or were included in the prior year salary verification project.

Total Hours Allocated: 1,080

Audit Report Recipients: Deputy Executive Director/Chief Retirement Officer, Retirement Program Manager, Employer, and SIB Audit Committee

TFFR FILE MAINTENANCE AUDIT:

On an annual basis, Audit Services of the Retirement and Investment Office (RIO) will review system generated (CPAS) audit tables to ensure transactions initiated by staff are expected and appropriate given an individual's role within the organization. Member account information from six Member Action Forms will be reviewed to verify that contact and demographic information has been updated correctly per Member Action Forms on file.

Total Hours Allocated: 30

Audit Report Recipients: Deputy Executive Director/Chief Retirement Officer, Retirement Program Manager, Fiscal and Investment Operations Manager, Supervisor of Information Systems, and SIB Audit Committee

TFFR REFUND AND PURCHASE AUDIT:

On an annual basis, Audit Services will review a sample of the system generated audit tables for eight randomly selected refunds and four randomly selected purchases of service credit (two installments and two lump sum). The accuracy of month end reporting of lump sum payments and installment purchases of service credit is also verified.

Total Hours Allocated: 90

Audit Report Recipients: Deputy Executive Director/Chief Retirement Officer, Retirement Program Manager, Fiscal and Investment Operations Manager, Supervisor of Information Systems, and SIB Audit Committee

TFFR COST BENEFIT AUDIT:

On a biannual basis, a review of TFFR benefit recipients is completed to determine that they received their retirement benefits in a cost effective and timely manner. This audit is intended to verify that RIO's mission is being achieved. As part of this overall process, Audit Services also verifies the accuracy of benefit payments via the recalculation of benefit payments for the sampling of member accounts.

Total Hours Allocated: 140

Audit Report Recipients: Executive Director, Deputy Executive Director/Chief Retirement Officer, Retirement Program Manager, and SIB Audit Committee

Note: The TFFR Cost Benefit Audit and the TFFR Benefit Payments Audit will be done on a rotational basis.

EXECUTIVE LIMITATION AUDIT:

On an annual basis the Executive Director/CIO's compliance with the State Investment Board (SIB) Governance Manual Executive Limitation Policies A-1 through A-11 is reviewed. The most recent calendar year is included in the audit. As a part of the Executive Limitation Audit process Audit Services facilitates a number of surveys. In December of each year staff is asked to evaluate the Executive Director/CIO in the areas of leadership, communication, and valuing employees. In July of each year Audit Services facilitates a customer satisfaction survey which is administered to SIB investment clients. At the request of the SIB Executive Review Committee Audit Services will also facilitate and compile the results of the survey administered to members of the SIB each February as a part of their evaluation of the Executive Director/CIO.

Total Hours Allocated: 160

Audit Report Recipients: Executive Director/CIO, SIB Audit Committee, and SIB

INTERNAL CONTROL ASSESSMENT:

A formal internal control assessment of RIO has never been completed. The purpose of an internal control assessment is to evaluate existing internal controls and review the effectiveness of the internal controls. The assessment will document controls and review the effectiveness of the system as a whole. An assessment of about 90 questions will cover Internal Audit, Human Resources, Information Technology, Operations, etc. This should be updated annually to ensure effectiveness and efficiency with internal controls.

Total Hours Allocated: 120

Audit Report Recipients: Executive Director, Deputy Executive Director/Chief Retirement Officer, Fiscal and Investment Operations Manager, Supervisor of Administrative Services, Supervisor of Information Systems, Retirement Program Manager, and SIB Audit Committee

AGENCY RISK ASSESSMENT:

A formal agency risk assessment of RIO was completed first quarter of 2018-2019 fiscal year. A risk assessment is a process to identify potential risks and analyze what could happen if it would occur. The purpose of a risk assessment is to identify risk involved in the activities or systems and provide assurance that risk is being managed by management. The risk assessment should be updated annually and the internal audit plan incorporate risks identified within the risk assessment.

Total Hours Allocated: 150

Audit Report Recipients: Executive Director, Deputy Executive Director/Chief Retirement Officer, Fiscal and Investment Operations Manager, Supervisor of Administrative Services, Supervisor of Information Systems, Retirement Program Manager, SIB Audit Committee, and SIB

QUARTERLY PORTFOLIO MONITORING TESTING:

RIO investment staff has been working with Blackrock to implement a comprehensive risk management system using Blackrock's Aladdin system. This has been a work-in-progress over the past 18 months and includes a module designed to monitor investment portfolio guidelines. Based on discussion with the external auditors during

preliminary fieldwork for the fiscal year 2018 financial audit, we anticipate an emphasis on designing procedures to regularly monitor investment portfolio guidelines going forward. Although guideline monitoring has been done sporadically in the past, it is considered a best practice in the industry to have a more consistent and specific process in place. RIO's Compliance Officer continues to work with Blackrock to both understand their system's capabilities in this area and ensure the system is set up to automatically monitor as many individual guidelines as possible in order to get the most useful results. Once that process is set up, Audit Services will be able to add specific testing of those processes to its audit plan to ensure that accurate monitoring is occurring. It is anticipated that this testing will occur on a quarterly basis, with a goal of starting this testing after the December 2018 quarter.

Total Hours Allocated: 120

Audit Report Recipients: Executive Director, Fiscal and Investment Operations Manager, and SIB Audit Committee

INVESTMENT AUDITS:

Investments have increased drastically over the past the past 5 years. One of the main focuses of the SIB is to ensure ongoing due diligence is being done and investment managers and reporting is accurate, consistent, and transparent. Since no investment audits have been performed by Audit Services, an estimate of hours for each audit is unknown. That the investment audits to be performed will be: Investment Manager Due Diligence Audit, Investment Performance Audit, and Cash Management and Rebalancing Audit. These are audits are listed in the Supervisor of Audit Services job duties.

Total Hours Allocated: 690

Audit Reports Recipients: Executive Director, Deputy Chief Investment Officer, Fiscal Investment Operations Manager, and SIB Audit Committee

SPECIAL PROJECTS

Time has been allocated in the event that the SIB will ask for assistance in any special projects that may arise.

Total Hours Allocated: 40

Audit Report Recipients: SIB Audit Committee and SIB

EXTERNAL AUDITOR ASSISTANCE:

Audit Services assists our external auditor, CliftonLarsonAllen (CLA), with a variety of tasks related to the annual financial audit. In particular Audit Services is responsible for notifying participating employers that they have been selected to participate in an upcoming GASB 68 Census Data Audit. Audit Services is also responsible for ensuring any information requested from participating employers is provided timely to our external audit partners. Audits Services will also become more involved with the external audit assistance in preparing documents and gathering information.

Total Hours Allocated: 60

Audit Report Recipients: SIB Audit Committee

Audit Services will allocate resources to the following administrative activities during fiscal year 2019:

Primary Administrative Responsibilities	
Total Hours Allocated: 1,480	
Annual Leave, Sick Leave, and Holidays	43%
Staff Meetings, Reporting, Email, and Records Retention	30%
SIB Audit Committee, SIB, and TFFR Board Meetings <ul style="list-style-type: none"> • Preparation and Attendance 	20%
Annual Audit Planning	5%
Professional Development	1%

ANNUAL LEAVE, SICK LEAVE, AND HOLIDAYS:

The staff auditor earns 192 hours of annual leave per year (16 hours per month). The Supervisor of Audit Services earns 120 hours of annual leave per year (10 hours per month). The current workplan makes an allowance for each staff member to utilize 80 hours of sick leave per year. Given the nature of such leave it is anticipated that more or less leave could be utilized. During the course of the fiscal year all state offices will close on ten observed holidays including New Year’s Day, Martin Luther King Jr Day, President’s Day, Good Friday, Memorial Day, Independence Day, Labor Day, Veterans Day, Thanksgiving Day, and Christmas Day.

Total Hours Allocated: 632

STAFF MEETINGS, REPORTING, EMAIL, AND RECORDS RETENTION:

Audit staff engages in numerous activities required to facilitate the day to day operations of both the department and the organization. Audit Services participates in department staff meetings and organization wide staff meetings. Staff members also must manage electronic communication (heavily used by participating employers), complete time and general reporting activities, and ensure compliance with published records retention procedures.

Total Hours Allocated: 450

SIB AUDIT COMMITTEE, SIB, AND TFFR BOARD MEETINGS

The Supervisor of Audit Services is required to prepare meeting materials for all SIB Audit Committee meetings. On some occasions meeting materials are also required for SIB and TFFR meetings as Audit Services provides quarterly updates to both of these oversight boards. The Supervisor of Audit Services attends (whenever possible) all SIB Audit Committee, SIB, and TFFR meetings. The staff auditor attends (whenever possible) SIB Audit Committee meetings.

Total Hours Allocated: 300

ANNUAL AUDIT PLANNING:

Audit Services completes audit planning activities on an annual basis. A participating employer risk assessment is completed in even numbered fiscal years. The results of this risk assessment, in particular the risk score, are used to create the current year and long range TFFR Employer Audit schedules. An audit hours budget and workplan are also created.

Total Hours Allocated: 80

PROFESSIONAL DEVELOPMENT

Professional development and continuing education opportunities are critical to continued professional success. All staff members of the Audit Services Division are members of the Institute of Internal Auditors (IIA). Staff members attend monthly educational opportunities provided by our local IIA chapter on a regular basis. The IIA also offers free webinars to all IIA members throughout the year which cover a variety of auditing related topics. Staff will continue to attend two day training seminars offered by our local IIA chapter and regional conferences if and when such opportunities are available under current budgetary constraints. Staff members will be required to participate in 8 hours of professional development activities during the fiscal year.

Total Hours Allocated: 18

Briefly

Employer Newsletter

ND Teachers' Fund for Retirement
3442 East Century Avenue, PO Box 7100
Bismarck, ND 58507-7100
701-328-9885 or 1-800-952-2970

www.nd.gov/rio

July 2018

New Member Reporting Requirements

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

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 2018-19 school year, ESPB has declared all teacher content areas as critical shortage except physical education. Administrator positions are not critical shortage areas for 2018-19.

Group Benefits Counseling Sites Scheduled

The 2018-19 Group Benefits Counseling sites have been scheduled. The location details can be found in our [Member Services Directory](#). There is a fillable [registration form](#) available on our website. Please help us inform your teachers about this valuable program by emailing the above links to your employees.

TFFR Employer Audit Information Corner

Sara Sauter
Supervisor of Audit Services

GASB 67 & 68 Census Data Audits

Each July TFFR's pension plan auditor, CliftonLarsonAllen (CLA), selects eleven participating employers to be included in the census data audit to comply with the Governmental Accounting Standards Board (GASB) 67 and 68 requirements. 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.



GASB Statement 68 Update

The audited fiscal year [2017 GASB Statement 68 information](#) is available on our website. This information includes the Schedules of Employer Allocations and Pension Amounts by Employer, GASB 68 Disclosure Template, and Sample Journal Entries. Employers and auditors can use this information to complete your 2018 financials.

TFFR Forms

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

These forms and others are also found on our [website](#).

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.

Teacher salaries reported in fiscal year earned		Teacher salaries reported in fiscal year paid	
FY15	\$54,000 (\$44,000 Base + \$10,000 Extra Duty)	FY15	\$54,000 (\$44,000 Base + \$10,000 Extra Duty)
FY16	\$56,000 (\$46,000 Base + \$10,000 Extra Duty)	FY16	\$56,000 (\$46,000 Base + \$10,000 Extra Duty)
FY17	\$58,000 (\$48,000 Base + \$10,000 Extra Duty)	FY17	\$48,000 (\$48,000 Base + \$0 Extra Duty)
FY18	\$60,000 (\$50,000 Base + \$10,000 Extra Duty)	FY18	\$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.

