



ND STATE INVESTMENT BOARD AUDIT COMMITTEE MEETING

Thursday September 26, 2019 – 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 23, 2019 Minutes – Chair (committee action) (5 minutes)
3. Election of Chair, Vice Chair, and Liaison – Chair (committee action) (5 minutes)
4. 2019 - 2020 Affirmation of Code of Conduct Policy – Connie Flanagan (information) (5 minutes)
5. 2018 - 2019 Year End Audit Activities Report – Sara Sauter (committee action) (20 minutes)
6. 2018 - 2019 Audit Committee Report to SIB – Sara Sauter (committee action) (10 minutes)
7. Audit Charter: 2018 - 2019 Review of Responsibilities – Sara Sauter (committee action) (15 minutes)
8. Internal Audit Background – Sara Sauter (education) (15 minutes)
9. 2019 – 2020 Audit Workplan Revised – Sara Sauter (committee action) (20 minutes)
10. Update on Current Internal Audit Activities – 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 13, 2019 @ 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 23, 2019 MEETING**

COMMITTEE MEMBERS PRESENT: Yvonne Smith, PERS Board, Chair
Jon Griffin, External Representative
Josh Wiens, External Representative

MEMBERS ABSENT: Bryan Klipfel, Workforce Safety & Insurance
Rob Lech, TFFR Board, Vice Chair

STAFF PRESENT: Connie Flanagan, Chief Financial Officer
Bonnie Heit, Admin Svs Suprv
David Hunter, ED/CIO
Fay Kopp, Dep ED/CRO
Sara Sauter, Suprv of Internal Audit
Shelly Schumacher, Retirement Program Manager
Dottie Thorsen, Internal Auditor

GUEST: Thomas Rey, CliftonLarsonAllen
Anders Odegaard, Attorney General's Office

CALL TO ORDER:

Ms. Smith called the State Investment Board (SIB) Audit Committee meeting to order at 3:00 p.m. on Thursday, May 23, 2019, at the Retirement and Investment Office (RIO), 3442 E Century Ave., Bismarck, ND.

A quorum was present for conducting business.

AGENDA:

The agenda was considered for the May 23, 2019, meeting.

IT WAS MOVED BY MR. GRIFFIN AND SECONDED BY MR. WIENS AND CARRIED BY A VOICE VOTE TO APPROVE THE AGENDA FOR THE MAY 23, 2019, MEETING AS DISTRIBUTED.

AYES: MR. WIENS, MR. GRIFFIN, MS. SMITH

NAYS: NONE

MOTION CARRIED

ABSENT: DR. LECH, MR. KLIPFEL

MINUTES:

IT WAS MOVED BY MR. WIENS AND SECONDED BY MR. GRIFFIN AND CARRIED BY A VOICE VOTE TO ACCEPT THE FEBRUARY 21, 2019, MINUTES AS DISTRIBUTED.

AYES: MR. GRIFFIN, MR. WIENS, AND MS. SMITH

NAYS: NONE

MOTION CARRIED

ABSENT: DR. LECH, MR. KLIPFEL

CLIFTONLARSONALLEN:

Mr. Rey reviewed the engagement scope, work plan, critical audit areas, and timeline of the financial statement audit of the Retirement and Investment Office (RIO) for the period of July 1, 2018 - June 30, 2019.

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, 2018. An unmodified clean opinion was issued on the statements.

Discussion followed on ongoing internal audit activities that could be done throughout the year in support of CliftonLarsonAllen. Mr. Rey felt since a Risk Assessment has been completed on RIO that a starting point would be to focus on areas that have been identified as the highest risk. CliftonLarsonAllen and the Internal Audit Division will be coordinating more of their efforts as the Internal Audit Division of RIO continues to refocus their efforts and audit areas of RIO that have been identified as those of highest risk.

IT WAS MOVED BY MR. WEIN AND SECONDED BY MR. GRIFFIN AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE AUDIT SCOPE AND APPROACH PRESENTED BY CLIFTONLARSONALLEN FOR THE FINANCIAL STATEMENT AUDIT OF RIO FOR THE PERIOD OF JULY 1, 2018 - JUNE 30, 2019.

AYES: MR. WIENS, MR. GRIFFIN, AND MS. SMITH

NAYS: NONE

MOTION CARRIED

ABSENT: DR. LECH, MR. KLIPFEL

AUDIT ACTIVITIES REPORT:

Ms. Sauter reported on internal audit activities for the period of January 1, 2019 - March 31, 2019, and also provided updates.

Four employer audits have been completed with three in progress with two to be completed by fiscal year end.

The Teachers' Fund for Retirement (TFFR) Purchase and Refund Audit has been completed. There were no significant findings.

The TFFR Salary Verification Audit testing is completed. The report will be forthcoming.

Since January of 2018, Internal Audit and RIO's Information Technology Division have been working with the State Information Technology Division to develop data analytics to help streamline the TFFR Employer Salary, Service Hours, and Eligibility Review process. The goal is to have it completed by June 30, 2019.

The TFFR Cost Benefit Audit was completed and reviewed with the Audit Committee at their February 21, 2019, meeting.

The Executive Limitations Audit was completed and reviewed with the Audit Committee at their February 21, 2019, meeting.

The Internal Audit Division has been assisting the SIB Executive Review Committee in the annual evaluation of the Executive Director/CIO and also assisting in developing and administering a board self-assessment.

The Investment Due Diligence audit testing has been completed. The audit is a new focus of the Internal Audit Division. The report will be forthcoming.

Ms. Sauter reported on Administrative Activities which included an educational segment at a RIO staff meeting on what internal audit is and its structure.

Ms. Sauter also provided an update on what Internal Audit will specifically be focusing on in the next couple of months.

Discussion followed on data analytics and the Death Audit.

Ms. Sauter and Ms. Thorsen also reviewed the Purchase and Refund Audit.

Ms. Sauter also reviewed the Executive Limitation review process.

Ms. Sauter also reviewed a draft of the final Employer Reporting Review. She has been working with the Retirement Services Division to revamp the final report that will be issued to Retirement Services. Internal Audit will now be issuing their findings on Employer audits to Retirement Services, not the Employers. Retirement Services will be responsible for issuing reports to the Employers and giving a written response on how, if any, findings and recommendations are being addressed.

IT WAS MOVED BY MR. WIENS AND SECONDED BY MR. GRIFFIN AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE INTERNAL ACTIVITIES REPORT FOR THE PERIOD OF JANUARY 1, 2019 - MARCH 31, 2019, AS WELL AS THE UPDATES.

AYES: MR. GRIFFIN, MR. WIENS, AND MS. SMITH

NAYS: NONE

MOTION CARRIED

ABSENT: DR. LECH, MR. KLIPFEL

WORK PLAN & BUDGETED HOURS:

Ms. Sauter reviewed the July 1, 2019 - June 30, 2020 work plan and requested feedback from the Audit Committee as far as allocation of time.

Discussion followed on the work plan.

Mr. Wiens questioned if there is confirmation of the valuation and existence of the SIB assets.

Mr. Hunter reviewed the avenues that would be available to Ms. Sauter. Ms. Sauter will work with the Investment Service's Division to determine the most efficient process to pursue and will report back to the Audit Committee.

The work plan will be revised to reflect this change and brought before the Audit Committee at their September 2019 meeting.

IT WAS MOVED BY MR. WIENS AND SECONDED BY MR. GRIFFIN AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE CURRENT WORKPLAN WITH MODIFICATIONS TO TAKE PLACE AS WARRANTED.

AYES: MR. WIENS, MR. GRIFFIN, AND MS. SMITH

NYAS: NONE

MOTION CARRIED

ABSENT: DR. LECH, MR. KLIPFEL

MEETING SCHEDULE:

A draft meeting schedule for the period of July 2019 - June 30, 2020 was presented for the Audit Committee's consideration.

The Audit Committee concurred with the schedule.

COMMITTEE MEMBERSHIP:

The Audit Committee membership will be determined by the SIB at their July 26, 2019, meeting. Current Audit Committee members are to let Ms. Sauter know if they are interested in continuing to serve.

OTHER:

The next Audit Committee meeting is scheduled for Thursday, September 26, 2019, at 10:00 a.m. at the Retirement and Investment Office, 3442 East Century Ave., Bismarck, ND.

With no further business to come before the Audit Committee, Ms. Smith adjourned the meeting at 4:21 p.m.

Respectfully Submitted:

Ms. Yvonne Smith, Chair
SIB Audit Committee

Bonnie Heit
Recording Secretary

MEMORANDUM

TO: State Investment Board (SIB) Audit Committee

FROM: Sara Sauter, Supervisor of Internal Audit

DATE: September 26, 2019

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*.

Connie Flanagan, Retirement and Investment Office (RIO) Chief Financial 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.



3442 East Century Avenue | P.O. Box 7100 | Bismarck, ND 58507-7100
 Telephone: 701-328-9885 | Toll Free: 800-952-2970 | Fax: 701-328-9897 | www.nd.gov/rio

Memorandum

To: State Investment Board Audit Committee

From: Connie Flanagan, CFO

Date: September 15, 2019

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 Internal Audit

DATE: September 26, 2019

SUBJECT: 2018-2019 Year End Audit Activities Report

Audit coverage was based on the July 1, 2018 through June 30, 2019 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. Audit Services has been making the transition from a compliance unit to an internal audit division.

RETIREMENT PROGRAM AUDITS:

- **Teachers' Fund for Retirement (TFFR) Employer Reporting Reviews**

- **AUDIT PLAN REQUIREMENTS:** Complete 10 TFFR Employer 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.
- **2018-2019 ACTUAL ACTIVITIES:**
 - Four (4) TFFR Employer Audits were completed during fiscal year 2018-19.

NOTE: Procedures for the TFFR Employer Audit Program were changed in November 2018. This resulted in less reviews being completed, as the new procedures needed to be developed and put into practice.

- **Cost Benefit Audit**

- **AUDIT PLAN REQUIREMENTS:** One of the missions of the RIO is to ensure that TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner. Audit Services will verify that this mission is being achieved. As a part of this overall process, Internal Audit will also verify the accuracy of benefit payments via the recalculation of benefit payments for a sampling of member accounts.
- **2018-2019 ACTUAL ACTIVITIES:**
 - The Cost Benefit Audit was completed on February 21, 2019.

- **TFFR File Maintenance Audit**

- **AUDIT PLAN REQUIREMENTS:** On an annual basis, Internal Audit 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.

- **2018-2019 ACTUAL ACTIVITIES:**
 - The File Maintenance Audit was not completed in 2018-2019, but is in progress and is expected to be completed in the first quarter of 2019-2020.
- **TFFR Purchase and Refund Audit**
 - **AUDIT PLAN REQUIREMENTS:** On an annual basis, Internal Audit 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.
 - **2018-2019 ACTUAL ACTIVITIES:**
 - The Purchase and Refund Audit was completed as of April 19, 2019.
- **Annual Salary Verification Project**
 - **AUDIT PLAN REQUIREMENTS:** On an annual basis Internal Audit 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.
 - **2018-2019 ACTUAL ACTIVITIES:**
 - The Annual Salary Verification Project was completed on July 17, 2019. The scope was also expanded to include 64 randomly selected member accounts.

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. Internal Audit 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.
 - **2018-2019 ACTUAL ACTIVITIES:**
 - The Executive Limitation Audit was completed on February 21, 2019.
 - The Executive Director/CIO Effectiveness Survey was completed on March 28, 2019.
 - The SIB Executive Review Committee Survey was completed on April 12, 2019.
- **SIB Self-Assessment Survey**
 - **PLAN REQUIREMENTS:** At the request of the State Investment Board, Internal Audit was asked to work with the Executive Review Committee on developing and administering a Board Self-Assessment Survey.
 - **2018-2019 ACTUAL ACTIVITIES:**
 - Internal Audit worked with the Executive Review Committee on developing and administering the Board Self-Assessment Survey and reported the results to the State Investment Board on May 24, 2019.

- **Investment Due Diligence Audit**

- **AUDIT PLAN REQUIREMENTS:** To review the ongoing investment due diligence process. A sample of investment manager's due diligence was selected and reviewed. Policies and procedures were also reviewed as part of the audit.
- **2018-2019 ACTUAL ACTIVITIES:**
 - The Investment Due Diligence Audit was completed July 31, 2019.

- **Agency Risk Assessment**

AUDIT PLAN REQUIREMENTS: Document risk involved in activities and/or systems in order to provide assurance that risk is being addressed by RIO management. The risk assessment will also be used in developing a risk-based audit plan.

- **2018-2019 ACTUAL ACTIVITIES:**
 - The Agency Risk Assessment was completed in September 2018.

- **RIO External Auditor Assistance**

- **AUDIT PLAN REQUIREMENTS:** Internal Audit 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.
- **2018-2019 ACTUAL ACTIVITIES:**
 - Internal Audit 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:** Internal Audit is a member of the Institute of Internal Auditors (IIA) and attends monthly meetings along with bi-annual seminars.
- **2018-2019 ACTUAL ACTIVITIES:**
 - Internal Audit 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.
 - Audit Staff attended the IIA's fall seminar which focused on Fraud Detection and Incident Response for Auditors and Identifying the Real Causes and Getting Managers to Act. Audit Staff also attended the IIA's spring seminar which focused on Auditing Ethics in the Workplace and Project Management for Auditors.
 - The Supervisor of Internal Audit started pursuing her Master's in Business Administration in September 2018 and has completed six classes.

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 2018-2019.

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
AUDIT SERVICES DIVISION
FISCAL YEAR 2018 -2019**

	FY 2018 1st QTR	FY 2018 2nd QTR	FY 2019 3rd QTR	FY 2019 4th QTR	FY 2019 TOTAL
Audit Activities					
Retirement Program Audits:					
TFFR Employer Audit Program					580
<i>Alexander Public School District</i>	88	28.50			116.5
<i>Garrison Public School District</i>	37	21.50			58.5
<i>Lidgerwood Public School District</i>	47	0.00			47.0
<i>Scranton Public School District</i>	27	1.50			28.5
<i>Warwick Public School District</i>			39.50	68.75	108.3
<i>New England-working with census data file</i>				61.00	61.0
<i>Wilton-working with census data file</i>				18.75	18.8
<i>General Employer Audits</i>	8			2.25	10.5
<i>Audit Peer Reviews/TFFR Meeting(s)/Audit Planning/Audit Notifications</i>	6	70.00	55.25		131.25
Benefits Audit - Deaths, Long-Outstanding Checks, Long-term Members			1.50	2.00	4
TFFR Cost Effective Benefit Payment Audit	2	161.50	154.25	30.75	349
TFFR Data Analytics		20.00	9.50	4.00	34
TFFR File Maintenance Audit				11.75	12
TFFR Purchase-Refund Audit			51.25	43.00	94
Annual Salary Verification Project			56.00	142.00	198
Audit Continuous Improvement Project - Employer Audit Program - Census Data Audit File	13				13
Agency Administrative and Investment Audits:					
Executive Limitations Audit	7	11.00	148.25	59.00	225
Investment Due Diligence		53.00	10.00	40.00	103
Risk Assessment	206	7.25	14.00		227
RIO External Auditor Assistance	23	4.00		3.00	30
Administrative Activities					
Administrative - Staff Mtgs, Time Reports, Email, Records Retention, General Reporting	180	221.00	197.25	231.25	830
Audit Committee/SIB/TFFR Attendance and Preparation	186	188.50	140.00	144.25	659
Professional Development/CE/General Education	1	34.25	4.00	22.50	62
Annual Leave, Sick Leave, and Holidays	209	218.25	159.25	155.75	742
Quarterly Total:	1040	1040	1040	1040	4160

Total Hours for 2018-2019 4,160

D. Thorsen Total Hours 2018-2019 2,080

S. Sauter Total Hours 2018-2019 2080

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
AUDIT SERVICES DIVISION
BUDGETED VS. ACTUAL HOURS FOR FISCAL YEAR 2018-2019**

	2018-2019 BUDGET HOURS (2 FTE'S)
1. Audit	
Retirement Program Audits:	
TFFR Employer Audits	960
TFFR Cost Effective Benefit Payment Audit	140
TFFR File Maintenance Audit(s)	30
TFFR Purchase-Refund Audit	90
TFFR Benefits Audit - Deaths, Long-Outstanding Checks, Long-term Members	0
Annual Salary Verification Project	120
	1,340
Agency and Investment Audits:	
Executive Limitation Audit & Executive Review Committee	200
Agency Risk Assessment	150
Investment Audits (Investment Due Diligence)	690
Internal Control Assessment	120
Quarterly Portfolio Monitoring Testing	120
RIO External Auditor Assistance	60
	1,340
Total Audit Hours:	2,680
2. Administrative	
Administrative - Staff Mtgs, Time Reports, Email, Records Retention, General Reporting	450
Audit Committee/SIB/TFFR Attendance and Preparation	380
Professional Development/CE/General Education	18
Annual Leave, Sick Leave, and Holidays	632
Total Administrative Hours:	1,480
Total Hours for 2018-2019:	4,160

Total Hours for 2018-2019: 4,160
Actual Hours for 2018-2019: 4,160
D. Thorsen Total Hours 2018-2019: 2,080
S. Sauter 2018-2019 Hours: 2,080

1st Quarter Actual Hours	2nd Quarter Actual Hours	3rd Quarter Actual Hours	4th Quarter Actual Hours	2018- 2019 Actual Hours	Actual vs. Budgeted Hours Over/(Under)
226	142	104	156	628	(333)
2	162	154	31	349	209
			12	12	(18)
		51	43	94	4
		2	2	3	3
		56	142	198	78
7	11	148	59	225	25
206	7	14		227	77
	53	10	40	103	(587)
				0	(120)
				0	(120)
23	4	0	3	30	(30)
464	378	539	487	1,868	(812)
180	221	197	231	830	380
186	189	140	144	659	279
1	34	4	23	62	44
209	218	159	155	742	110
576	662	501	553	2,292	812
1,040	1,040	1,040	1,040	4,160	(0)
25%	25%	25%	25%	100%	

Audit Services
North Dakota Retirement and Investment Office
Investment Due Diligence Audit
Final Audit Report
July 31, 2019

Background

Internal Audit of the Retirement and Investment Office (RIO) has developed an Audit Program to review the ongoing investment due diligence process for the investment managers. Due diligence is the exercise of care that a reasonable person is expected to take over the life of an investment from pre-hire to wind-down. Given that a reliable investment due diligence process requires extensive ongoing monitoring to ensure that continued investment with a given manager is advisable, the Investment Team at RIO spends a substantial amount of time completing due diligence procedures with existing investment managers. This audit will review the due diligence procedures and documentation on investment managers.

Results Summary

Overall, Internal Audit (IA) found that the Investment Team has a comprehensive ongoing due diligence process. IA reviewed the due diligence process for 5 investment managers and no concerns were noted. IA reviewed a daily compliance report that BlackRock's Aladdin produced and that the Compliance Officer reviews on a daily basis. The exceptions noted on the report were false positives and IA did not note any concerns. Policies and procedures were reviewed with one recommendation noted.

While it appears that the Investment Team communicates frequently with each other on the details of the due diligence completed for each of the investment managers, there is no formal documentation for the procedures completed. It is recommended that a formal documentation process be established. Examples of documented procedures could include: the date due diligence was performed, the Investment Team member that performed the due diligence, the names of individuals in attendance, the notation of observations, concerns, and any other pertinent information.

The Investment Team should notify Internal Audit with their responses to the recommendation noted in this audit within 30 days of receipt of this report.

Scope

A majority of the audit work occurred in the second and third quarter of fiscal year 2019. A total of 5 investment managers were selected and the due diligence procedures were reviewed. Meetings were held with each member of the Investment Team and the Compliance Officer about the due diligence process.

Observations, Conclusions and Recommendations

IA met with the Investment Team (Chief Investment Officer, Deputy Chief Investment Officer, and Investment Analyst) and the Compliance Officer to discuss the process of ongoing due diligence performed on the investment managers. The Investment Team discussed what they do on a weekly, monthly, quarterly, semi-annually, and annual basis. The Deputy Chief Investment Officer also provided the ongoing due diligence policy with the investment managers. There is continual monitoring on performance and compliance with the investment guidelines. The Investment Team also works closely with Callan, the State Investment Board's (SIB) primary general investment consultant, on monitoring portfolio behavior. Callan produces performance reports on a quarterly basis for staff to review. Callan also meets quarterly with the SIB to review the portfolio performance and discuss any concerns.

The software BlackRock's Aladdin is utilized to help manage and monitor risk in the investment portfolio. BlackRock's Aladdin produces portfolio risk management reports. These reports allow the Investment

Team to view risk sensitivities from the individual security, portfolio, portfolio group and the enterprise level. It also aggregates exposures by asset types, sectors and portfolios. Benchmarks are also modeled at the individual security level which allows detailed comparisons of portfolios versus benchmarks. Reports can be produced daily, monthly and over other various timeframes. The Compliance Officer on a daily basis reviews changes to the portfolio to ensure that the investment guidelines are being adhered to by the investment managers.

On an annual basis, the Compliance Officer sends a Due Diligence Questionnaire (DDQ) to each of the investment managers to complete. This is a comprehensive document that helps the Investment Team monitor any significant changes that have occurred, and to ensure that investment managers are still adhering to the investment guidelines. The DDQ is reviewed every year before it is sent out to the investment managers and questions are added or removed as needed.

Once the DDQs are received from the investment managers, they are reviewed by the Compliance Officer. If any problem areas are noted, they are immediately brought to the attention of the Deputy Chief Investment Officer. The Deputy Chief Investment Officer also reviews each of the DDQs. It should be noted that these procedures are not required for vintage, non-core private equity partners to complete. There is one Investment Manager that is not required to complete a DDQ, but is required to send their audited financials and annual certification of investment guidelines.

The software Tamale is used as a central depository for investment related documents. These include but are not limited to the DDQ, contracts, agreements, and other routine monitoring documents. Staff has indicated that the purchase of Tamale in 2013 has helped with the monitoring of investment managers as everything is stored in one place and accessible to the Staff.

Another important procedure for ongoing due diligence is for the Investment Team to do onsite visits. Onsite due diligence reviews are considered an industry best practice which gives the Investment Team more insight into each investment manager. They are able to interview more of the investment manager's staff and get a better insight to the company. Policy states that at least once every three years an onsite due diligence visit will be done. However, if any market conditions or manager-specific issues arise more frequently onsite visits may occur. As of this report, there are 38 active investment managers with 73 different accounts. It should be noted that 6 of these relationships are ending and no onsite due diligence is required for these 6 relationships.

In discussions with the Investment Team, there was no formal documentation process for the remote or onsite due diligence reviews. Due to time constraints and a small staff, no formal documentation has been developed. However, during the discussions and review of materials, it does appear that the Investment Team does an efficient job of communicating to the team members on what was discussed and reviewed on remote or onsite due diligence visits.

Distribution:

State Investment Board
State Investment Board Audit Committee
David Hunter, Executive Director/Chief Investment Officer
Darren Schulz, Deputy Chief Investment Officer
Connie Flanagan, Chief Financial Officer

TO: RIO Internal Audit and State Investment Board
FROM: Dave Hunter, Darren Schulz and Eric Chin
DATE: September 6, 2019
SUBJECT: **RIO Investment Due Diligence Audit Report - Response**

I am pleased that “Internal Audit found that the Investment Team has a comprehensive ongoing due diligence process”, **while acknowledging that our formal documentation process should be enhanced.**

Based on this Internal Audit recommendation, **RIO’s Investment Team** has developed a **Detailed Quarterly Monitoring Report** which includes the following items:

1. Investment manager or consulting firm name;
2. Date and location of due diligence meeting or conference;
3. Type of due diligence conducted (e.g. preliminary, market update, portfolio update, pricing update, consultant screening);
4. Meeting attendees; and
5. Brief description of documentation form, length, file location and key findings, if any.

RIO’s Investment Team implemented the above described documentation process effective July 1, 2019. RIO intends to share this **Detailed Quarterly Monitoring Report** with the SIB after each quarter-end effective as of October 1, 2019. The **Detailed Quarterly Monitoring Report** will be inserted behind RIO’s existing “**Quarterly Monitoring**” report which is formally accepted by the SIB (as a consent agenda item after every quarter end). RIO’s Investment, Fiscal and Administrative Services Teams also worked together to redefine the roles and responsibilities of our new Investment and Compliance Officer to further support and enhance RIO’s existing investment due diligence documentation procedures.

Note: An interim version of this new Detailed Quarterly Monitoring Report is attached for reference purposes (for due diligence efforts from July 1, 2019 to August 31, 2019).

North Dakota Retirement and Investment Office
Internal Audit Services
State Investment Board Self-Evaluation Executive Review Summary
May 24, 2019

Background

The State Investment Board (SIB) requested Internal Audit Services of the Retirement and Investment Office (RIO) assist the SIB Executive Review Committee on developing and administering a Board Self-Evaluation Survey (Survey). Internal Audit Services worked with the Executive Review Committee in developing, administering, and reporting the self-evaluation results.

Scope

The Survey is comprised of twenty-nine questions and consists of five categories for both the self-assessment and board assessment portions. The five categories in each section included: board and staff roles, board and committee structure, board meetings, policy making and reviews, and financial management and investment practices. There were two open ended questions at the end that asked for any other input for the Survey and any recommendations for topics to be included in future evaluations. The Survey was administered through SurveyMonkey and results reviewed by the Executive Review Committee. A four-point scale was used, with 4 – strongly agree, 3 – agree, 2 – disagree, and 1 – strongly disagree as the rating system. Ten out of eleven board members participated in the Survey.

Results Summary

Generally, the self-assessment portion had positive results and comments. In the self-assessment section Board members all strongly agreed they understood the authority that has been retained by the SIB and what duties have been delegated to staff. The majority of Board members also strongly agreed they individually understood the legal duties and responsibilities required as a fiduciary. Abiding by board code of conduct and avoiding conflicts of interests were also areas that Board members self-assessed as areas of strength. Areas that the Board members felt there would be room for improvement were when it came to policies of the SIB. Comments indicated that this is an area that Board members felt they could improve on and would like more regular policy reviews to help stay familiar with the SIB policies. While all Board members agree they stay engaged in board meetings, it was stated that it takes time to understand the complex items the SIB discusses and deals with.

The board-assessment portion also had positive results and comments. From a board level, Board members felt that board meetings were well-run and a good use of time. Also, the standing committees communicated effectively and timely to the SIB. Areas that there is room for improvement include Board members consistently being prepared for meetings and staying engaged. While comments indicated that healthy discussions were held, one Board member stated that more vocal members can dominate discussion and it can stunt discussion. Another comment indicated that not all members are active as they could be in discussions. Just as in the self-assessment portion, Board members felt that more could be done as a Board on understanding the SIB policies. Another area that Board members thought there was room for improvement was for Board members to regularly attend board meetings. Comments did indicate that Board members know during legislative sessions it can be difficult for elected official Board members to attend meetings.

In comparing the self-assessment portion to the board-assessment portion there was an area of variance. In the self-assessment portion all board members strongly agreed that they understood the authority that has been retained by the SIB and what duties have been delegated to staff. However, on the board-assessment portion only four members strongly agreed that the board recognizes the authority retained and what has been delegated to staff (although the other six members did indicate they agreed with this statement).

Overall, the SIB Board Self-Evaluation was positive and had positive comments. There is an overwhelming agreement that Board members understand their responsibilities and understand their role as a fiduciary. While there is room for improvement, a strong foundation appears to be in place to continue building upon.

Internal Audit Services
North Dakota Retirement and Investment Office
2017-2018 Salary Verification
Final Audit Report
July 17, 2019

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 Internal Audit Services 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 2017-2018 for sixty-four member accounts were reviewed. Reporting errors were identified on eleven member accounts (approximately 17%). There are nine member accounts recommended for corrections due to the material dollar amount of the error. Internal Audit (IA) has recommended that Retirement Services (RS) request three different master payroll files from various employers or contact the business manager to ensure that the errors found are not systemic affecting other members.

In conclusion, RS's should notify IA with their responses to the errors found in this review within the next 30 days of this report.

Scope

A majority of audit work occurred during the fourth quarter of fiscal year 2019. The accuracy of retirement salaries, member contributions, and employer contributions reported to TFFR for the 2017-2018 fiscal year were verified. Service hours reported in 2017-2018 were reviewed for reasonableness and eligibility was confirmed via an ESPB search.

Observations, Conclusions and Recommendations

IA reviewed a total of sixty-four member accounts, nine member accounts are recommended for corrections due to the material dollar amount of the error which are detailed below. Two member accounts are noted with reporting errors, but no corrections were recommended due to the amounts being immaterial. Individual identifying information has been eliminated by IA. The participating employers with errors have been identified.

Burke Central School (07-036)

The following errors were noted: (1) eligible stipend for advanced education was not reported, (2) ineligible insurance cash option was reported, and (3) TFFR was calculated after an insurance deduction. RS should request the master payroll file to ensure that errors 2 and 3 are not a systemic issues affecting other members, or contact the business manager to verify if the errors are systemic or not. IA has attached details of the corrections on the salary reconciliations, Primary Test, the Schedule for Changes in Salaries and Contributions, and the Salary Correction Summary.

Edmore School (36-002)

The employer reported ineligible salary to TFFR. Salary was paid in lieu of previously employer provided housing allowance received on an individual basis for fiscal year 2017-2018. IA has attached details of the

corrections on the salary reconciliations, Primary Test, the Schedule for Changes in Salaries and Contributions, and the Salary Correction Summary.

Fort Yates School (43-004)

The employer deducted insurance and a loan repayment before reporting TFFR salary. This caused salary and contributions to be under-reported to TFFR. Retirement salary needs to be reported before deductions are taken out. IA has attached details of the corrections on the salary reconciliations, Primary Test, the Schedule for Changes in Salaries and Contributions, and the Salary Correction Summary.

Gackle-Streeter Public School (24-056)

The employer reported ineligible ticket taking and volleyball line judging retirement salary. Due to the amount being immaterial, IA did not recommend any corrections.

Leeds School (03-006)

The employer reported salary after a vision insurance deduction was taken out of salary. This caused salary and contributions to be under-reported to TFFR. Retirement salary needs to be reported before deductions. RS should request the master payroll file or contact the business manager to ensure that the insurance cash benefit is not a systemic issue affecting other members. IA has attached details of the corrections on the salary reconciliations, Primary Test, the Schedule for Changes in Salaries and Contributions, and the Salary Correction Summary.

Little Heart Elementary School (30-004)

The employer did not report eligible after school program salary for one month. Once a member is contracted to perform teaching, supervisory, administrative, or extracurricular services, additional payments for performance of duties of a teacher are considered eligible retirement salary and must be reported to TFFR. IA has attached details of the corrections on the salary reconciliations, Primary Test, the Schedule for Changes in Salaries and Contributions, and the Salary Correction Summary.

Mandaree School (27-036)

The employer reported an ineligible utility allowance to TFFR as retirement salary and did not report eligible retirement salary of Committee work. IA has attached details of the corrections on the salary reconciliations, Primary Test, the Schedule for Changes in Salaries and Contributions, and the Salary Correction Summary.

Medina School (47-003)

The employer reported 2016-17 track salary to TFFR in the wrong fiscal year of 2017-2018. The salary must be reported in the fiscal year in which it is earned, regardless of when it is paid. IA has attached details of the corrections on the salary reconciliations, Primary Test, the Schedule for Changes in Salaries and Contributions, and the Salary Correction Summary.

Rural Cass Spec Ed (09-200)

The employer reported retirement salary after horace mann was deducted from salary. This caused salary and contributions to be under-reported to TFFR. Retirement salary should be reported before deductions. RS should request the master payroll file or contact the business manager to ensure that this deduction is not a systemic issue affecting other members. IA has attached details of the corrections on the salary reconciliations, Primary Test, the Schedule for Changes in Salaries and Contributions, and the Salary Correction Summary.

St. John's School (40-003)

The employer reported ineligible incentive pay as retirement salary for one member. IA has attached details of the corrections on the salary reconciliations, Primary Test, the Schedule for Changes in Salaries and Contributions, and the Salary Correction Summary.

Wishek School (26-019)

The employer did not report eligible salary for meetings that were attended that was earned outside of the member's contract that was eligible retirement salary. Due to the amount being immaterial, IA did not recommend any corrections.



TFFR 2017-18 Salary Verification Review

Internal Audit (IA) Report issued: July 17, 2019

Retirement Services (RS) Response issued: August 17, 2019

Audit Recommendation for Burke Central School (07-036)

The following errors were noted: (1) eligible stipend for advanced education was not reported, (2) ineligible insurance cash option was reported, and (3) TFFR was calculated after an insurance deduction. RS should request the master payroll file to ensure that errors 2 and 3 are not a systemic issues affecting other members, or contact the business manager to verify if the errors are systemic or not. IA has attached details of the corrections on the salary reconciliations, Primary Test, the Schedule for Changes in Salaries and Contributions, and the Salary Correction Summary.

Retirement Services Response:

Retirement Services will correct the salaries and contributions for the Burke Central TFFR member included on the Schedule for Changes in Salaries and Contributions. In addition, Retirement Services will contact the business manager to determine if this member or other members were impacted by errors 2 and 3 in PFY18; PFY19; and CFY20.

Audit Recommendation for Edmore School (36-002)

The employer reported ineligible salary to TFFR. Salary was paid in lieu of previously employer provided housing allowance received on an individual basis for fiscal year 2017-2018. IA has attached details of the corrections on the salary reconciliations, Primary Test, the Schedule for Changes in Salaries and Contributions, and the Salary Correction Summary.

Retirement Services Response:

Retirement Services will correct the salaries and contributions for the Edmore TFFR member included on the Schedule for Changes in Salaries and Contributions. In addition, Retirement Services will contact the business manager to determine if PFY19 and CFY20 also need to be corrected for this member.

Audit Recommendation for Fort Yates School (43-004)

The employer deducted insurance and a loan repayment before reporting TFFR salary. This caused salary and contributions to be under-reported to TFFR. Retirement salary needs to be reported before deductions are taken out. IA has attached details of the corrections on the salary reconciliations, Primary Test, the Schedule for Changes in Salaries and Contributions, and the Salary Correction Summary.

Retirement Services Response:

Retirement Services will correct the salaries and contributions for the Fort Yates TFFR member included on the Schedule for Changes in Salaries and Contributions.

Gackle-Streeter Public School (24-056)

The employer reported ineligible ticket taking and volleyball line judging retirement salary. Due to the amount being immaterial, IA did not recommend any corrections.

Retirement Services Response:

Retirement Services will not correct the immaterial errors. Retirement Services will contact the Gackle-Streeter business manager and recommend that the payroll codes for ticket taking and line judging be reviewed to make sure these payments are not reported to TFFR in the future.

Audit Recommendation for Leeds School (03-006)

The employer reported salary after a vision insurance deduction was taken out of salary. This caused salary and contributions to be under-reported to TFFR. Retirement salary needs to be reported before deductions. RS should request the master payroll file or contact the business manager to ensure that the insurance cash benefit is not a systemic issue affecting other members. IA has attached details of the corrections on the salary reconciliations, Primary Test, the Schedule for Changes in Salaries and Contributions, and the Salary Correction Summary.

Retirement Services Response:

Retirement Services will correct the salaries and contributions for the Leeds TFFR member included on the Schedule for Changes in Salaries and Contributions. In addition, Retirement Services will contact the business manager to determine if this member or other members were impacted by this error in PFY18; PFY19; and CFY20.

Audit Recommendation for Little Heart Elementary School (30-004)

The employer did not report eligible after school program salary for one month. Once a member is contracted to perform teaching, supervisory, administrative, or extracurricular services, additional payments for performance of duties of a teacher are considered eligible retirement salary and must be reported to TFFR. IA has attached details of the corrections on the salary reconciliations, Primary Test, the Schedule for Changes in Salaries and Contributions, and the Salary Correction Summary.

Retirement Services Response:

Retirement Services will correct the salaries and contributions for the Little Heart Elementary TFFR member included on the Schedule for Changes in Salaries and Contributions.

Audit Recommendation for Mandaree School (27-036)

The employer reported an ineligible utility allowance to TFFR as retirement salary and did not report eligible retirement salary of Committee work. IA has attached details of the corrections on the salary reconciliations, Primary Test, the Schedule for Changes in Salaries and Contributions, and the Salary Correction Summary.

Retirement Services Response:

Retirement Services will correct the salaries and contributions for the Mandaree TFFR member included on the Schedule for Changes in Salaries and Contributions.

Audit Recommendation for Medina School (47-003)

The employer reported 2016-17 track salary to TFFR in the wrong fiscal year of 2017-2018. The salary must be reported in the fiscal year in which it is earned, regardless of when it is paid. IA has attached details of the corrections on the salary reconciliations, Primary Test, the Schedule for Changes in Salaries and Contributions, and the Salary Correction Summary.

Retirement Services Response:

Retirement Services will correct the salaries and contributions for the Medina TFFR member included on the Schedule for Changes in Salaries and Contributions. In addition, Retirement Services will contact the business manager to determine if FY19 and FY20 track coaching salary is reported in the correct year.

Audit Recommendation for Rural Cass Spec Ed (09-200)

The employer reported retirement salary after horace mann was deducted from salary. This caused salary and contributions to be under-reported to TFFR. Retirement salary should be reported before deductions. RS should request the master payroll file or contact the business manager to ensure that this deduction is not a systemic issue affecting other members. IA has attached details of the corrections on the salary reconciliations, Primary Test, the Schedule for Changes in Salaries and Contributions, and the Salary Correction Summary.

Retirement Services Response:

Retirement Services will correct the salaries and contributions for the Rural Cass Special Education TFFR member included on the Schedule for Changes in Salaries and Contributions. In addition, Retirement Services will contact the business manager to determine if this member or other members were impacted by this error in PFY18; PFY19; and CFY20.

Audit Recommendation for St. John's School (40-003)

The employer reported ineligible incentive pay as retirement salary for one member. IA has attached details of the corrections on the salary reconciliations, Primary Test, the Schedule for Changes in Salaries and Contributions, and the Salary Correction Summary.

Retirement Services Response:

Retirement Services will correct the salaries and contributions for the St. John's TFFR member included on the Schedule for Changes in Salaries and Contributions. In addition, Retirement Services will contact the business manager to determine if this member had incentive pay reported PFY19 and instruct the business manager to not report incentive pay for this member in the future. Retirement Services will also request payroll documentation to reconcile PFY19 since the member had a 13% salary increase.

Wishek School (26-019)

The employer did not report eligible salary for meetings that were attended that was earned outside of the member's contract that was eligible retirement salary. Due to the amount being immaterial, IA did not recommend any corrections.

Retirement Services Response:

Retirement Services will not correct the immaterial errors. Retirement Services will contact the Wishek business manager and recommend that the payroll codes for meeting attendance be reviewed to make sure these payments are reported to TFFR in the future.

Internal Audit – North Dakota Retirement and Investment Office
New England TFFR Salary Review
July 1, 2015 – June 30, 2017
Final Report
July 30, 2019

Background

Internal Audit (IA) of the Retirement and Investment Office (RIO) has developed a program to review the required reports and payments for the Teacher's Fund for Retirement (TFFR) members that are made by public school districts and other member employers. This program 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.

During the 2017/18 and 2018/19 fiscal years, IA revised and updated the annual Audit Work Plan (AWP) for RIO. The time needed to update and revise the work plan delayed the start of the review of information received from New England.

This salary review was conducted under the new procedures of the annual AWP instituted in 2019. IA started the review of the information received from the employer on May 31, 2019 and completed the review on July 22, 2019. The errors have been forwarded to the following Retirement Services (RS) staff through this report: Deputy Executive Director/Chief Retirement Officer and the Retirement Program Manager. Official reports with any exceptions noted or recommendations will now be issued from RS to the Employer. RS will be responsible for corrections and if any follow-up is needed with the Employer.

Scope

Internal Audit (IA) of the Retirement and Investment Office (RIO) conducted a TFFR Employer Reporting Review designed to test the accuracy of retirement salaries and contributions reported by the Employer to determine accuracy with the definition of salary as it defined in the TFFR Employer Guide. The Employer's master contracts, Employer payment plan, salary schedules, extra-curricular payment schedules, the individual teacher contracts, and payroll records were used in the review. Other reporting procedures reviewed during the review process included the calculation of service hours and eligibility for TFFR membership.

- Phase I – Reviewed the New England reporting history, selected a sample of members for the salary review, requested information from the employer
- Phase II – Completed the review of information received from the Employer to determine that salary reported was eligible, members were eligible, and service hours were accurate

Results Summary

Retirement Services should correct Error 1, 2, and 3 found in Phase II of this review and notify IA with their responses to the recommendations found within the next 30 days of this report.

Observations, Errors, Recommendations, and Conclusions

Observations, Exceptions, Recommendations, and Conclusions Phase I – Sample Selection

IA reviewed the following information: Employer account history, Employer summary reports, and consulted with the Employer Services Coordinator for a summary of monthly reporting practices. A sample of six members was selected for a review of 2015/16 through 2016/17 fiscal years.

Observations, Errors, Recommendations, and Conclusions Phase II – Testing of information from the Employer

After reviewing the information requested for the review period, IA found the following errors:

Error 1: The Employer reported incorrect retirement salaries for three members. Two of the three member accounts had material errors that are recommended for correction. The following errors were found: in-staff subbing was not reported for one member, athletic supervision of students was not reported for one member, and contract salary was reported incorrectly for one member. The errors were isolated and would not affect other members in the District. See the Primary Test and the Worksheet for Changes in Salaries and Contributions.

Error 2: The Employer did not report all in-staff subbing hours for one member who did not earn a full year of service credit in 2015/16. IA recommends that RS increase the service hours with the salary correction. See the Service Hours Correction Worksheet for the member.

Error 3: 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.

Actual service hours were not reported to TFFR for three retired teachers who returned to covered employment. The Employer did not have established procedures for actively monitoring service hours. They relied on the honor system. Since the service hours reported did not exceed maximum allowable hours, IA does not recommend any corrections to the accounts, however, IA recommends that RS recommend to the Employer to establish procedures to monitor the hours.

Distribution:

David Hunter, Executive Director/CIO
Fay Kopp, Deputy Executive Director/Chief Retirement Officer
Shelly Schumacher, Retirement Program Manager

TFFR Employer Reporting Review: **New England School District**
Internal Audit (IA) Report issued: **July 30, 2019**
Retirement Services (RS) Response issued: **August 8, 2019**

Audit Recommendation:

Retirement Services should correct Error 1, 2, and 3 found in Phase II of this review and notify IA with their responses to the recommendations found within the next 30 days of this report.

Error 1: The Employer reported incorrect retirement salaries for three members. Two of the three member accounts had material errors that are recommended for correction. The following errors were found: in-staff subbing was not reported for one member, athletic supervision of students was not reported for one member, and contract salary was reported incorrectly for one member. The errors were isolated and would not affect other members in the District. See the Primary Test and the Worksheet for Changes in Salaries and Contributions.

Retirement Services Response:

Retirement Services will correct the salaries and contributions for the two New England TFFR members included on the Schedule for Changes in Salaries and Contributions. Retirement Services will issue a report to New England summarizing findings, corrections, and recommendations from the review under new TFFR Employer Reporting Review procedures.

Error 2: The Employer did not report all in-staff subbing hours for one member who did not earn a full year of service credit in 2015/16. IA recommends that RS increase the service hours with the salary correction. See the Service Hours Correction Worksheet for the member.

Retirement Services Response:

Retirement Services will correct the service hours for one New England TFFR member included on the Service Hours Correction Worksheet. Retirement Services will include this finding and correction in its report to New England School.

Error 3: 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.

Actual service hours were not reported to TFFR for three retired teachers who returned to covered employment. The Employer did not have established procedures for actively monitoring service hours. They relied on the honor system. Since the service hours reported did not exceed maximum allowable hours, IA does not recommend any corrections to the accounts, however, IA recommends that RS recommend to the Employer to establish procedures to monitor the hours.

Retirement Services Response:

Retirement Services will recommend in its report that New England School establish procedures to actively monitor service hours and correctly report actual service hours for reemployed retirees.

Internal Audit – North Dakota Retirement and Investment Office
Wilton TFFR Employer Salary Review
July 1, 2015 – June 30, 2017
Final Report
August 22, 2019

Background

Internal Audit (IA) of the Retirement and Investment Office (RIO) has developed a program to review the required reports and payments for the Teacher's Fund for Retirement (TFFR) members that are made by public school districts and other member employers. This program 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.

During the 2017/18 and 2018/19 fiscal years, IA revised and updated the annual Audit Work Plan (AWP) for RIO. The time needed to update and revise the work plan delayed the start of the review of information received from Wilton.

This salary review was conducted under the new procedures of the annual AWP instituted in 2019. IA started the review of the information received from the employer on June 25, 2019 and completed the review on August 22, 2019. The errors have been forwarded to the following Retirement Services (RS) staff through this report: Deputy Executive Director/Chief Retirement Officer and the Retirement Program Manager. Official reports with any exceptions noted or recommendations will now be issued from RS to the Employer. RS will be responsible for corrections and if any follow-up is needed with the Employer.

Scope

Internal Audit (IA) of the Retirement and Investment Office (RIO) conducted a TFFR Employer Reporting Review designed to test the accuracy of retirement salaries and contributions reported by the Employer to determine accuracy with the definition of salary as it defined in the TFFR Employer Guide. The Employer's master contracts, Employer payment plan, salary schedules, extra-curricular payment schedules, the individual teacher contracts, and payroll records were used in the review. Other reporting procedures reviewed during the review process included the calculation of service hours and eligibility for TFFR membership.

- Phase I – Reviewed the Wilton reporting history, selected a sample of members for the salary review, requested information from the employer
- Phase II – Completed the review of information received from the Employer to determine that salary reported was eligible, members were eligible, and service hours were accurate

Results Summary

There were three errors noted in the review. It is recommended that Retirement Services correct the salaries for the five members affected by Error 2 found in Phase II of this review. Retirement Services should also notify IA with their responses to the recommendations found within thirty days from the receipt of this report.

Observations, Errors, Recommendations, and Conclusions

Observations, Exceptions, Recommendations, and Conclusions Phase I – Sample Selection

IA reviewed the following information: Employer account history, Employer summary reports, and consulted with the Employer Services Coordinator for a summary of monthly reporting practices. A sample of four members was selected for a review of 2015/16 through 2016/17 fiscal years. The Employer also sent additional information for seven members that taught summer school.

Observations, Errors, Recommendations, and Conclusions Phase II – Testing of information from the Employer

After reviewing the information requested for the review period, IA found the following errors:

Error 1: The Employer did not report eligible athletic supervision salary for one member. The error was isolated and did not affect other members in the District. No correction is recommended for the account due to the immaterial amount of the salary not reported. See the Primary Test and the Worksheet for Changes in Salaries and Contributions.

Error 2: The Employer reported summer salary in the wrong fiscal year during the 2015/16, 2016/17, and 2017/18 fiscal years. Seven members taught summer salary. IA recommends that RS correct five of the seven members' accounts. Since the Employer could not provide documentation on the dates that two members taught Driver's Education, no adjustments are recommended for their accounts. IA also recommends that RS review the summer salary reported in fiscal year 2018/19. See the Primary Test and the Worksheet for Changes in Salaries and Contributions.

Error 3: The Employer reported service hours incorrectly for two part-time teachers. Since the members earned a full year of service in another District, IA does not recommend any corrections to the two accounts.

Distribution:

David Hunter, Executive Director/CIO

Fay Kopp, Deputy Executive Director/Chief Retirement Officer

Shelly Schumacher, Retirement Program Manager

TFFR Employer Reporting Review:	Wilton School District
Internal Audit (IA) Report issued:	August 22, 2019
Retirement Services (RS) Response issued:	September 5, 2019

Audit Recommendation:

There were three errors noted in the review. It is recommended that Retirement Services correct the salaries for the five members affected by Error 2 found in Phase II of this review. Retirement Services should also notify IA with their responses to the recommendations found within thirty days from the receipt of this report.

Error 1: The Employer did not report eligible athletic supervision salary for one member. The error was isolated and did not affect other members in the District. No correction is recommended for the account due to the immaterial amount of the salary not reported. See the Primary Test and the Worksheet for Changes in Salaries and Contributions.

Retirement Services Response:

Retirement Services will not correct the immaterial error. Retirement Services will recommend in its report that the Wilton business manager review the payroll code for athletic supervision to make sure these payments are reported to TFFR in the future.

Error 2: The Employer reported summer salary in the wrong fiscal year during the 2015/16, 2016/17, and 2017/18 fiscal years. Seven members taught summer salary. IA recommends that RS correct five of the seven members' accounts. Since the Employer could not provide documentation on the dates that two members taught Driver's Education, no adjustments are recommended for their accounts. IA also recommends that RS review the summer salary reported in fiscal year 2018/19. See the Primary Test and the Worksheet for Changes in Salaries and Contributions.

Retirement Services Response:

Retirement Services will correct the salaries and contributions for the five Wilton TFFR members included on the Schedule for Changes in Salaries and Contributions and also work with the Wilton Business Manager to correct any summer salary reported in the wrong year for 2018-19. Retirement Services will also recommend that Wilton School include dates of employment on future driver education contracts. Retirement Services will issue a report to Wilton School summarizing findings, corrections, and recommendations from the review under new TFFR Employer Reporting Review procedures.

Error 3: The Employer reported service hours incorrectly for two part-time teachers. Since the members earned a full year of service in another District, IA does not recommend any corrections to the two accounts.

Retirement Services Response:

Retirement Services will not correct the service hours for the two part-time teachers. Retirement Services will recommend in its report that Wilton School establish procedures to monitor service hours and correctly report service hours for part time teachers.

Internal Audit – North Dakota Retirement and Investment Office
TFFR Employer Reporting Review for Warwick
July 1, 2016 – June 30, 2017
Final Report
May 23, 2019

Background

Internal Audit of the Retirement and Investment Office (RIO) has developed an Audit Program (AP) to review the required reports and payments for the Teacher's Fund for Retirement (TFFR) members that 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. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. TFFR Employer Reporting Review reports are filed with RIO/TFFR Management upon completion. The report is also filed with the Audit Committee of the State Investment Board (SIB) quarterly. All 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.

Internal Audit (IA) of the Retirement and Investment Office (RIO) conducted an employer audit designed to test the accuracy of retirement salaries and contributions reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(10). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, were used in the examination. Other reporting procedures reviewed during the audit process included the calculation of service hours and eligibility for TFFR membership.

In the audit report dated April 22, 2016, the retirement salaries for fiscal years 2013/14 through 2014/15 reported by the Warwick School District were not in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (10). Six findings were noted in the report and a not in compliance review was scheduled for fiscal year 2016/17 to ensure that errors were corrected. Warwick received notification from IA for the additional review on March 7, 2018.

During the 2017/18 and 2018/19 fiscal years, IA revised and updated the annual Audit Work Plan (AWP) for the RIO. The time needed to update and revise the work plan delayed the start of the review of information received from Warwick.

This 2016/17 TFFR Employer Salary Review was conducted under the new procedures of the annual AWP instituted in 2019. IA started the review of the information received from the employer on February 28, 2019 and completed the review on April 25, 2019. The errors/exceptions will be forwarded to the following RS staff through this report: Deputy Executive Director/Retirement Officer and the Retirement Program Manager. Official reports with any errors/exceptions noted or recommendations to the Employer will now be issued by Retirement Services (RS).

Scope

In order to determine that reporting errors in the 2016 audit had been corrected, IA conducted a TFFR Employer Review to test the accuracy of retirement salaries/contributions, service hours, and eligibility of members reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(10).

- Phase I – Review of the Warwick Employer Audit dated April 22, 2016, review of reporting history after the timeframe of April Audit, and select a sample of members for the review of salary/service hours/eligibility, request information from the employer
- Phase II – Completed the review of information requested from the Employer to determine that salary reported was eligible, members were eligible, service hours were accurate, and that reporting errors found in audit dated April 22, 2016 had been corrected by the Employer

- Phase III – The Business Manager at Warwick notified Retirement Services that 2016/17 and 2017/18 salary errors occurred. The 2016/17 errors were forwarded to IA to be included in the review.

Results Summary

IA determined that the Warwick School District had corrected the reporting procedures noted in the audit report dated April 22, 2016 with the exception of the three errors noted in Phase II. For Phase III, there was one exception noted to policy – See Exception 1.

In conclusion, RS's should notify IA with their responses to the exception/errors found in this review within 30 days of receipt of this report.

Observations, Exceptions, Errors, Recommendations, and Conclusions

Observations, Exceptions, Errors, Recommendations, and Conclusions Phase I – Sample Selection

IA reviewed the following information: Audit report with findings, audit information for fiscal years 2013/14 and 2014/15, employer account history after the 2015 audit timeframe, and consulted with the Employer Services Coordinator for monthly reporting summary.

A sample of six members was selected for a review of 2016/17 fiscal year.

Observations, Exceptions, Errors, Recommendations, and Conclusions Phase II – Testing of information from the Employer

After reviewing the information for fiscal year 2016/17, IA determined that the Warwick School District corrected the following reporting errors from the last audit report:

- Written agreements were issued for summer salary
- Hours for retired teachers who returned to teach were monitored
- Eligible salary was reported
- Ineligible busing was not reported
- Salary was reported in the correct fiscal year – see Error 2 below
- Service hours were correctly reported – see Error 3 below

There were three errors noted in the review of information.

Error 1: Warwick hired a member for fiscal year 2017/18. The member participated in District education in June of 2017 which was reported to TFFR in June of 2017. Since the member did not have a written agreement for the 2016/17 fiscal year, the professional development/education salary and contributions paid should not have been reported to TFFR.

Audit Recommendation:

RS should inform IA with their response to the error within 30 days of receipt of this report. IA has attached details of the corrections on the salary reconciliations, Schedule 1 - Primary Test, the Schedule for Changes in Salaries and Contributions, and the Schedule 2 - Salary Correction Summary.

Error 2: In Phase 1, IA reviewed the reporting history by the employer since the April audit report (2013/14 and 2014/15). On the 2015/16 Employer Summary report, there was a one payment reported for two teachers that were no longer employed at Warwick. IA requested documentation on the July 2015 salary reported for two members due to summer salary errors that occurred in the April audit. The Business Manager stated that she was new to her position in July of 2015 and could not find documentation on why the salary was paid and reported. Both teachers were not contracted with the District in 2015/16. Since no documentation could be provided as proof of

error, IA did not recommend account changes to the two member accounts. More details can be found on the audit documentation on service credit. In 2016/17, there were no members with only summer salary reported.

Audit Recommendation:

IA checks for two types of errors during the summer months (June, July, and August): salary reported in the wrong fiscal year and summer salary reported without a written agreement. If summer salary is the only salary reported for a member by the employer in 2018/19, RS should verify that the salary is reportable.

Error 3: The Employer monitored hours of retired members who returned to teach in 2016/17. The Business Manager received calendars from the retired teachers that showed the days and hours worked. The actual hours reported for two retired teachers were not accurate. IA did not recommend corrections because the hours reported did not exceed the maximum allowable number. More details can be found on the audit documentation on service credit and retired teachers.

Audit Recommendation: None

Observations, Exceptions, Errors, Recommendations, and Conclusions Phase III – Correcting additional member’s salaries forwarded to IA for correction by RS

During the Presumptive Retirement Process in 2018, RS found that Warwick had a programming error for deductions in the 2017/18 fiscal year. An insurance deduction occurred before the TFFR contribution was calculated which resulted in a salary shortage. The Business Manager from Warwick provided RS with errors found in 2016/17 and 2017/18 fiscal years in October of 2018. RS’s forwarded the errors for fiscal year 2016/17 to IA to be included with the scheduled TFFR Employer Review of Salaries. Seven accounts were forwarded to IA to correct. Corrections were made from a spreadsheet generated by the Warwick Business Manager. Because one of the members on the spreadsheet had retired during the 2018 Presumptive Process, IA requested contract and payroll information to correct the salary.

IA has attached the required Schedules to make the corrections to the member accounts: see the Salary Reconciliations, Schedule 1 - Primary Test, the Schedule for Changes in Salaries and Contributions, and the Schedule 2 - Salary Correction Summary.

Exception 1: As part of the Presumptive Retirement process, RS reviews the five most recent years of salary. They review salary fluctuations and determine that the current year salary reported is eligible. One of member’s salaries forwarded to IA to correct was a 2018 presumptive retiree. IA does not review salaries of members who have died or retired. This has been a standard procedure for many years and was instituted because of the duplication of duties.

Recommendation:

RS should continue to reconcile and correct the salaries of members retiring during the presumptive retirement process.

Distribution:

- David Hunter, Executive Director/CIO
- Fay Kopp, Deputy Executive Director/Chief Retirement Officer
- Shelly Schumacher, Retirement Program Manager



TFFR Employer Reporting Review: **Warwick School District**
Internal Audit (IA) Report issued: **May 23, 2019**
Retirement Services (RS) Response issued: **June 19, 2019**

Audit Recommendation for Error 1:

RS should inform IA with their response to the error within 30 days of receipt of this report. IA has attached details of the corrections on the salary reconciliations, Schedule 1 - Primary Test, the Schedule for Changes in Salaries and Contributions, and the Schedule 2 - Salary Correction Summary.

Retirement Services Response:

Retirement Services will correct the salaries and contributions for the Warwick TFFR members included on the Schedule for Changes in Salaries and Contributions. In addition, Retirement Services will correct service hours for the member that should not have been reported to TFFR in FY17 by Warwick. Retirement Services will issue a report to Warwick summarizing findings, corrections, and recommendations from the review under new TFFR Employer Reporting Review procedures.

Audit Recommendation for Error 2:

IA checks for two types of errors during the summer months (June, July, and August): salary reported in the wrong fiscal year and summer salary reported without a written agreement. If summer salary is the only salary reported for a member by the employer, in 2018/19, RS should verify that the salary is reportable.

Retirement Services Response:

Retirement Services will review the Warwick 2018-19 final Employer Summary Report and determine if any TFFR member shows salary reported only in July and/or August 2018 or June 2019. If any are found, Retirement Services will contact Warwick to verify that the salary was reportable.

Audit Recommendation for Exception 1:

RS should continue to reconcile and correct the salaries of members retiring during the presumptive retirement process.

Retirement Services Response:

Retirement Services will continue to review salaries for reasonability, reconcile current fiscal year salary, and correct material salary errors discovered during the presumptive retirement process.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
INTERNAL AUDIT SERVICES
TFFR EMPLOYER REVIEW OF SALARIES, SERVICE HOURS, AND ELIGIBILITY OF TEACHERS REPORTED
JULY 1, 2018 TO JUNE 30, 2019

	EMPLOYER	FISCAL YEARS	TOTAL MEMBERS	REPORT DATE	TOTAL REVIEW HOURS	EMPLOYER CONTRIB'S DR(CR)	MEMBER SALARY ADJUSTED	MEMBER SERVICE CREDIT ADJUSTED	STATUS
✓	Reviews Completed - (4)								
1	✓ DT Alexander	*^ 6/30/2015, 16	23	10/25/2018	117	(790.21)	3	0	Four findings noted. (1) Did not actively monitor hours for two retired teachers who returned to teach; (2) reported ineligible mileage; (3) reported summer salary in the wrong fiscal year; and (4) no written agreements for summer salary.
2	✓ DT Garrison	6/30/2015, 16	44	10/29/2018	59	\$0.00	0	0	One finding noted. Summer agreement was not issued for one member.
3	✓ DT Lidgerwood	6/30/2015, 16	45	9/13/2018	47	\$0.00	0	0	One finding noted. The employer did not actively monitor the service hours for one retiree who had returned to covered employment to ensure that the maximum allowable hours were not exceeded. Actual service hours were not reported to TFFR for the retiree.
4	✓ DT Warwick NIC Review	* 6/30/2017	31	5/23/2019	96	\$1,409.99	8	0	Four findings noted in review. Employer corrected all errors from last audit; (1) isolated error- reported professional development without a written agreement; (2) Salary was reported without a written agreement-no correction because of lack of documentation; (3) actual service hours for retired teachers was not reported - no corrections; (4) Audit corrected salary errors passed on by Retirement Services - one of the corrections was a retired teacher which should have been corrected during the presumptive process.
Totals			143		319	\$619.78	11	0	

* Expanded member accounts reviewed

^ Expanded number of years reviewed

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
INTERNAL AUDIT SERVICES
TFFR EMPLOYER REVIEW OF SALARIES, SERVICE HOURS, AND ELIGIBILITY OF TEACHERS REPORTED
JULY 1, 2019 TO JUNE 30, 2020

	EMPLOYER	FISCAL YEARS	TOTAL MEMBERS	REPORT DATE	TOTAL REVIEW HOURS	EMPLOYER CONTRIB'S DR(CR)	MEMBER SALARY ADJUSTED	MEMBER SERVICE CREDIT ADJUSTED	STATUS	
✕	Reviews Pending - (1)									
&	Reviews in Progress - (1)									
✓	Reviews Completed - (2)									
1	&	SS	Jamestown	2017-2018	212				Audit in progress.	
2	✕	DT	Minot	2017-2018	685				Audit notification sent 9/9/2019	
3	✓	DT	New England	* 2016-2017	26	7/30/2019	95 (\$185.28)	2	1	Three findings noted. Salaries were reported incorrectly: in-staff subbing was not reported, athletic supervision was not reported, and contract salary was reported incorrectly, service hours reported incorrectly, and hours were not monitored for retired teachers who returned to covered employment.
4	✓	DT	Wilton	** 2016-2017	32	8/22/2019	72 \$0.00	5	0	Three findings noted: Salaries were reported incorrectly: athletic supervision was not reported, summer salary was reported in the incorrect fiscal year, and service hours were reported incorrectly.
Totals					<u>955</u>	<u>167</u>	<u>(\$185.28)</u>	<u>7</u>	<u>1</u>	

* Expanded member accounts reviewed
^ Expanded number of years reviewed

Nebraska Public Employees Retirement System

Active Teachers -41,443 Retires-22,686 Plan Assets: \$9.70 billion Employers: Over 260

Audit Staff: 2 auditors 1 supervisor

Audits Performed on Employers: 25 – sample only one month – any problems identified are given back to the member services. In discussions with Nebraska, they have taken the approach of doing multiple trainings with business managers and found that, trainings business managers is more beneficial and has resulted in less audit findings than just doing audits.

Minnesota Teachers Retirement Association

Active Teachers – 81,811 Retires-58,632 Plan Assets: \$21 billion Employers: 550

Audit Staff: 2

Audits Performed on employers: 25-35 – reviews 1 fiscal year- if issues turned over to member services and is there decision to research and go back farther.

Teacher Retirement System of Texas

Active Teachers - 848,085 Retires 268,066 Plan Assets: \$150 billion Employers: Over 1,350

Audit Staff: 4 (only 1-2 do employer audits)

Audits Performed: 8-10 – sample one month that is recent (within the last six months) then it is up to retirement services to go back farther to correct issues. Their program has only been up and running for the last 4 years to audit employers and their plan is to in the next 5 years all employer compliance will be turned over to retirement services.

South Dakota Retirement System

Active Teachers – 40,452 Retired Teachers 27,341 Plan Assets: \$11.64 billion Employers: 165

Audit Staff: Audit is under operations there is no internal audit

Audits Performed on employers: 0 – they rely on external auditors to do compliance in relation to GASB 68

Montana Teacher's Retirement Service

Active Teachers – 18,917 Retired Teachers 14,878 Plan Assets: \$4 billion Employers: 356

Audit Staff: No internal audit division

Audits Performed on employers: 0 – they rely on external auditors to do compliance in relation to GASB 68

MEMORANDUM

TO: State Investment Board (SIB)

FROM: SIB Audit Committee

DATE: September 26, 2019

**SUBJECT: Fiscal Year End Audit Committee Activities Update
July 1, 2018 to June 30, 2019**

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, that are both independent and financially literate. Members of the Audit Committee for the 2018 - 2019 fiscal year were:

Yvonne Smith, PERS Board, Chair
 Rob Lech, TFFR Board, Vice Chair
 Cindy Ternes, (Workforce Safety & Insurance designee) Elected and Appointed Officials and SIB Liaison
 Joshua Wiens, External Member
 Jon Griffin, External Member

The Audit Committee held four regular meetings during the fiscal year ended June 30, 2019. The meetings occurred on: September 27, 2018, November 15, 2018, February 21, 2019, and May 23, 2019.

Activities of the Audit Committee during the past year included:

- The Committee approved a July 1, 2018 through June 30, 2019 Audit Service work plan. Progress was monitored on a quarterly basis. Audit activities included:
 - A formal Agency-Wide Risk Assessment was completed. It documented risk involved in activities and/or systems in order to provide assurance that risk is being addressed by RIO management.
 - Four TFFR Employer Reporting Reviews were completed. The review tested the accuracy of retirement salaries and contributions reported by the Employer. Eligibility and services hours were also reviewed.
 - TFFR Benefit Payment Cost Efficiency Audit was completed. A review of TFFR benefit recipients was completed to determine that they received their retirement benefits in a cost effective and timely manner. The accuracy of benefit payments via the recalculation of benefit payments for the sampling of member accounts was also verified.
 - The TFFR Refund and Purchase Audit was completed. Refunds and purchases of service credit was reviewed along with procedures. The accuracy of payments and installment purchases of service credit was also verified.

- Annual Salary Verification Project was completed. Salaries, contributions, service hours, and eligibility reported to TFFR for the prior fiscal year for sixty-four randomly selected member accounts were 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, 2018.
 - 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 training seminars and monthly meetings which cover a variety of topics.
- The Committee received the results of the RIO financial audit for the fiscal year ended June 30, 2018 from independent auditors, CliftonLarsonAllen, LLP. They issued an unmodified "clean" opinion.
 - The Committee reviewed the RIO financial audit plan for fiscal year ended June 30, 2019 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 Internal Audit

DATE: September 26, 2019

SUBJECT: Audit Charter: 2018 - 2019 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 23, 2019 members of the Committee met with representatives from RIO's independent audit firm, CliftonLarsonAllen. The July 1, 2018 to June 30, 2019 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.*
- 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 15, 2018 and May 23, 2019, members of the Committee met with representatives from RIO's independent audit firm, CliftonLarsonAllen. RIO's Chief Financial Officer 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 15, 2018, the Committee received, reviewed, and approved the June 30, 2018 Financial Audit Report of RIO. On May 23, 2019, the Committee received, reviewed, and approved the 2018 GASB 68 Schedule Audit Report. On both occasions, RIO's management, representatives of RIO's independent audit firm, CliftonLarsonAllen, and RIO's Chief Financial Officer 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 15, 2018 and May 23, 2019, members of the Committee met with RIO's management, representatives from RIO's independent audit firm, CliftonLarsonAllen, and RIO's Chief Financial Officer. 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. A formal risk assessment was documented and a summary of results were presented to the Committee. Audit reports are provided at the conclusion of each quarterly 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 15, 2018, the Committee received, reviewed, and approved the June 30, 2018 Financial Audit Report of RIO. On May 23, 2019, the Committee received, reviewed, and approved the 2018 GASB 68 Schedule Audit Report. On both occasions RIO's management, representatives of RIO's independent audit firm, CliftonLarsonAllen, and RIO's Chief Financial Officer 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 2019.*

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 Executive Director 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 Charter was updated and approved by the Committee on November 15, 2018. The Committee is provided an update regarding the activities of Audit Services 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 2019.*
- Review and approve the annual risk-based audit work plan and all major changes to the plan.
 - *On September 27, 2018 the Committee approved the 2018-2019 audit work plan budgeted hours based off of results of the agency risk assessment.*
- Bring to the attention of the Board any internal audit issues the Committee determines significant and appropriate for Board consideration.
 - *There were no internal audit issues the Committee needed to bring to the Board's attention.*
- Participate with the Executive Director in the appointment and annual evaluation of the Supervisor of Audit Services. Work with 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.

- *The annual evaluation for the Supervisor of Internal Audit for the review period beginning April 1, 2018 and ending March 31, 2019 was provided to the Audit Committee chair for review prior to being finalized. No changes were made to Internal Audit staffing during fiscal year 2019. No salary increases and/or promotions other than those authorized by the legislature occurred in fiscal year 2019.*

Risk Management

- Obtain information and/or training to enhance the Committee's understanding of the organization and its related risk management processes.
 - *The Committee received education on Fiduciary Responsibility and Investment Due Diligence.*
- Review the adequacy of the organization's policy on risk management.
 - *The policies for risk management have been revised and will be going to the Committee in FY 2020 for review.*
- Review the effectiveness of the organization's system for assessing, monitoring, and controlling significant risks or exposures.
 - *A formal risk assessment was completed in September 2018. A risk-based audit plan was approved following the risk assessment. Audit staff is in process of transitioning into an internal audit division and transitioning away from doing third party compliance audits. As audit staff is able to do more internal audits, the Committee will be able to review the risks or exposures to the agency.*
- Review management's reports on risks and related risk mitigations.
 - *Management responds to all audits and their response is reported to the Committee.*
- Hire outside experts and consultants in risk management, as necessary, subject to full board approval.
 - *No outside experts or consultants were hired during FY 2019.*

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 Salary Review program on a quarterly basis. The Committee is provided a copy of all completed employer salary review reports. There were changes done to the TFFR Employer Salary Review program under the advice of legal, and audit staff is no longer determining if salaries are in compliance, but instead noting any errors and forwarding results to Retirement Services. It is Retirement Services responsibility to follow-up with the employers on issues.*
- 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.

- *Audit staff is in process of transitioning into an internal audit division and transitioning away from doing third party compliance audits. Audit staff notes, if any, recommendations and findings in audits. Management responds to all audits and their response is reported to the Committee.*
- Review the process for communicating and monitoring compliance with the code of ethics, code of conduct, and fraud policies.
 - *Audit staff reviews to ensure all staff signs and acknowledges the understanding with the code of code of ethics, code of conduct, and fraud policies. This is reviewed as part of the Executive Limitations Audits.*
- 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.
 - *There were no findings/recommendations noted by the CLA.*
- Obtain updates from the RIO's management and legal counsel regarding compliance matters, as deemed necessary.
 - *On November 15, 2018 RIO's legal counsel informed the Committee that Audit Services could no longer determine if salaries are in compliance, but instead noting if there are any errors and forwarding results to Retirement Services. It is Retirement Services responsibility to follow-up with the employers on issues.*

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 28, 2018, November 16, 2018, February 22, 2019, and May 24, 2019.*
- 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 26, 2018 for fiscal year 2018. The annual written report will be provided to the SIB on September 29, 2019 for fiscal year 2019.*

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 as CLA is in a three-year contract.*

- 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 Committee received education on Fiduciary Responsibility and Investment Due Diligence.*
- 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 Internal Audit 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 Internal Audit, 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. There were no incidents reported.*
- 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 Internal Audit regarding the procedures in place for the prevention of illegal payments, conflicts of interest, or other questionable practices whenever deemed necessary. At this time Internal Audit is not aware of any inquires made by or concerns of the Committee regarding these matters.*
- Perform other activities related to this charter as requested by the SIB.
 - *The SIB made no requests of the Committee during fiscal year 2019.*
- Institute and oversee special investigations as needed.
 - *No special investigations were instituted or needed during fiscal year 2019.*
- Review any other reports the RIO issues that relates to the Committee's responsibilities.
 - *Internal Audit is aware of no other reports issued during fiscal year 2019 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 November 15, 2018, the Committee reviewed and approved of the Charter.*

- Confirm annually the review of all responsibilities outlined in this charter.
 - *On September 27, 2018, the Committee reviewed and approved of the Charter.*



Internal Audit Background

ND Retirement and Investment Office

Why is there Internal Audit?

- ▶ **Established by the State Investment Board**
 - ▶ Assist the SIB in carrying out its oversight responsibilities as they relate to RIO
 - ▶ Primary objective of internal audit function is to assist the SIB and management in the effective discharge of their responsibility
- ▶ **To protect the organization**
- ▶ **It is a best business practice to have internal audit**



Accounting vs. Internal Auditing

	Accounting	Internal Auditing
Area of Focus	<ul style="list-style-type: none">• Financial analysis• Transaction processing• Budgeting• Record keeping	<ul style="list-style-type: none">• Determining accuracy of financial reporting• Internal Controls• Compliance• Effectiveness and efficiency of operations• Governance structure• Risk management
Method of Working	<ul style="list-style-type: none">• Transaction processing• Cyclical financial reporting and budgeting	<ul style="list-style-type: none">• Project based• May include committee work and ongoing risk assessments
Certifications	CPA, CMA, <i>etc.</i>	CPA, CIA, CISA, CFE, <i>etc.</i>



Types of Auditors

External Auditors

- Hired by an organization
- Often financial statement or IT focus
- 25,000' view
- Produce a report with an opinion

Regulatory Auditors

- From a government agency or grantor
- May be called auditors, inspectors, compliance officers
- Ensure compliance with regulations
- Report, score card, or dashboard

Internal Auditors

- Work for the organization
- Risk-based audit plan
- Variety of audits based on industry
- Report or memo with recommendations



What is Internal Auditing?

- Independent and objective
 - Value-added
 - Improves operations
 - Accomplishes objectives
 - Improves effectiveness and efficiencies
-



The IIA Standards

- ▶ Independence
- ▶ Professional Proficiency
- ▶ Scope
- ▶ Performance of Audit
- ▶ Management
- ▶ Code of Ethics



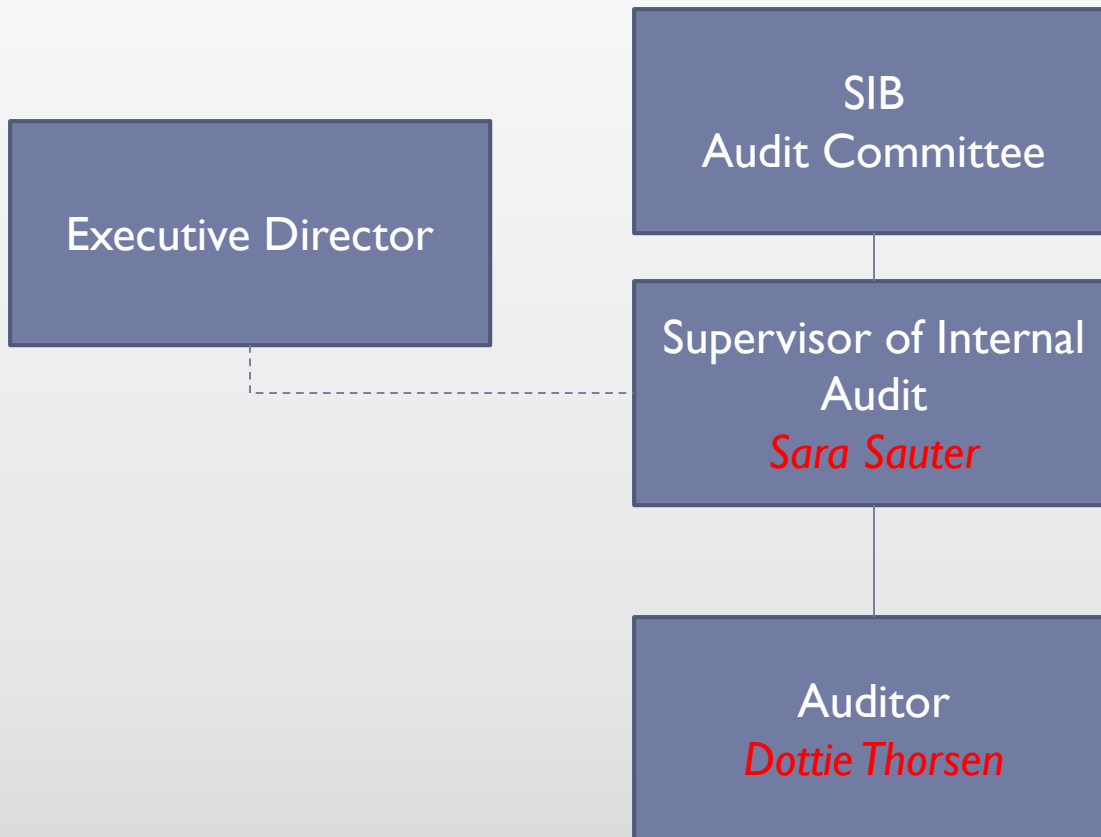
Internal Audit at *RIO*

▶ Charter

- ▶ *Approved by the State Investment Board and adheres to the Institute of Internal Auditors best practices*
- ▶ *Audit Services Unit is responsible for developing and directing a broad, comprehensive program of internal auditing within RIO*
- ▶ *Reports administratively to Executive Director and functionally to the Audit Committee of the SIB*
- ▶ *Audit Staff has full, free, unrestricted access to all RIO activities, records, property, and personnel relative to the subject under review*



Internal Audit Structure at *RIO*





How Internal Auditors Work

Working with Internal Audit

- ▶ Traditional vs. "Modern" Internal Auditors
- ▶ Evolution of Internal Audit
- ▶ Work Assigned by SIB or SIB Committees
- ▶ Audit Engagements
- ▶ Different Types of Engagements
 - ▶ Compliance Audits
 - ▶ Operational Audits
 - ▶ Consultations
 - ▶ Investigations



Risk-based Auditing

- ▶ Goal:
 - ▶ To identify areas in the agency that have significant risks and to evaluate those areas to determine if those risks are being adequately managed.
- ▶ Risk Assessments
- ▶ What is risk?
- ▶ Factors affecting risk



Examples of Controls

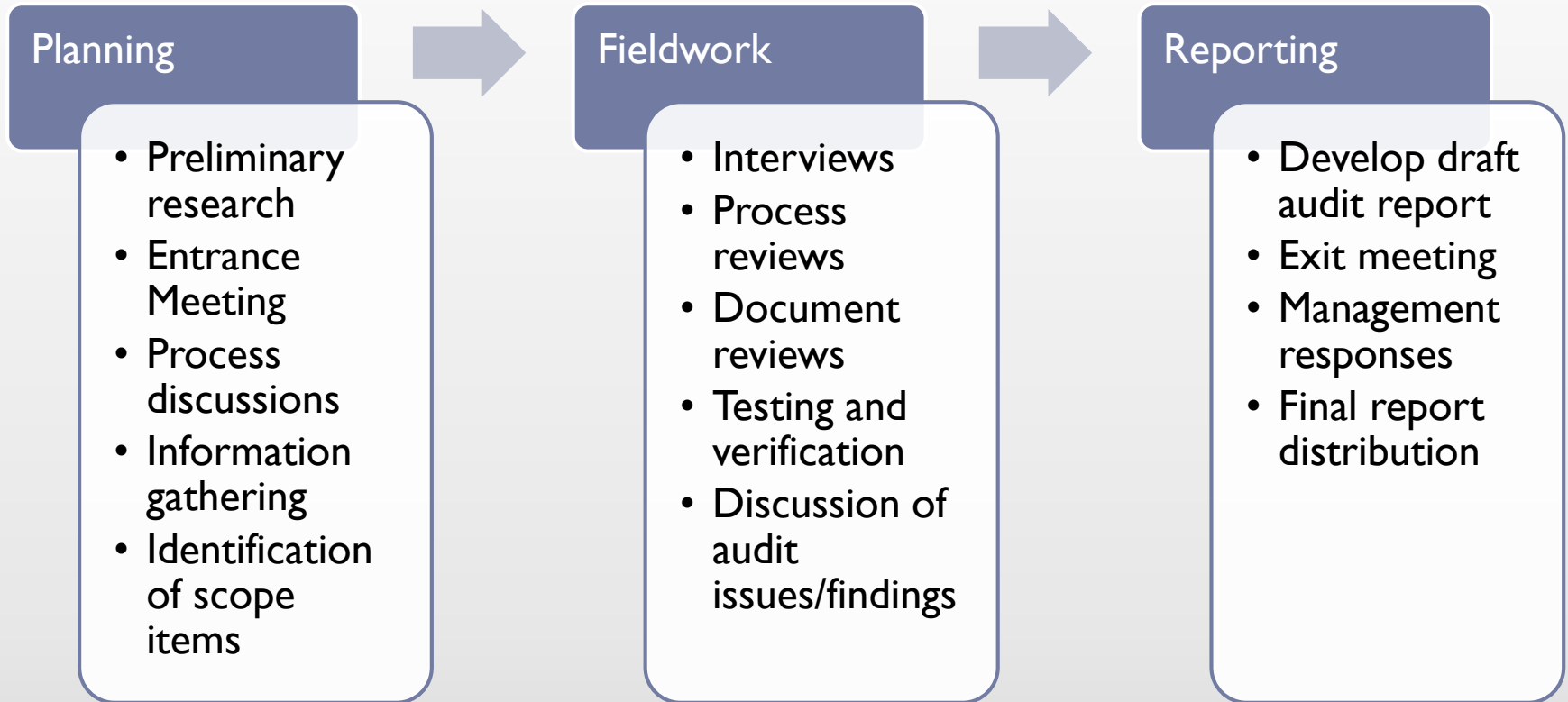
Preventive Controls	Detective Controls
Segregation of duties	Exception reports
Supervision	Reconciliations
Security of assets	Performance reviews
Reading and understanding current policies and procedures.	Annual physical inventory counts





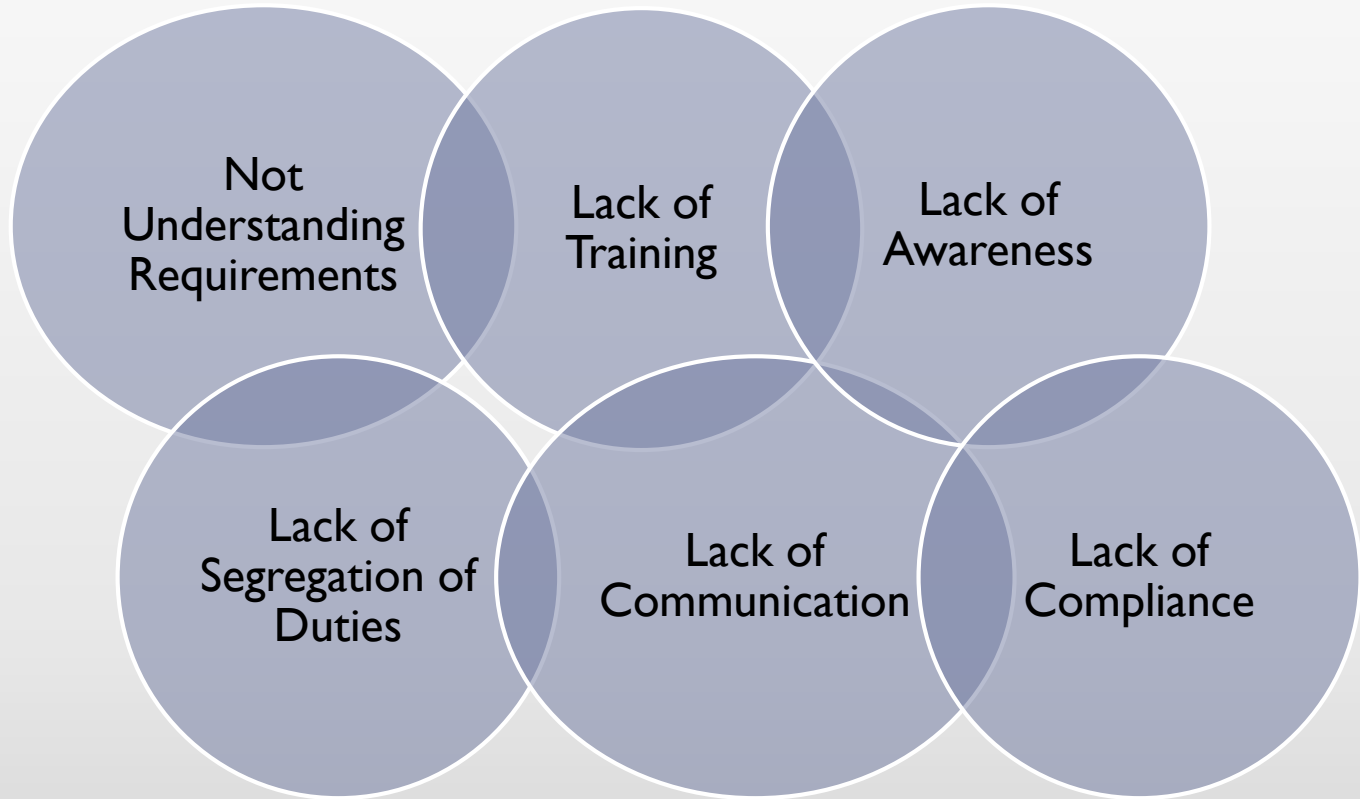
Audit Process

Audit Process



CONTINUOUS COMMUNICATION

Common Audit Findings



Positive Impacts of Audits

**Institution-
Wide**

**Priority
management**

Practical advice

**Comprehensive
view of risk**

**Department-
Wide**

Fraud prevention

**Improve
efficiency and
compliance**

Strong support



Hotline Information

- ▶ *Administered By Eide Bailly*
 - ▶ *866-91.ALERT*





Thank You!



Internal Audit

MEMORANDUM

TO: State Investment Board (SIB) Audit Committee
FROM: Sara Sauter, Supervisor of Internal Audit
DATE: September 26, 2019
SUBJECT: 2019 - 2020 Audit Services Workplan

The following information details the proposed workplan for Audit Services for 2019 - 2020. 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 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 2020:

Primary Audit Responsibilities	
Total Hours Allocated: 2,630	
Teachers' Fund for Retirement (TFFR) Salary Reviews	43%
<ul style="list-style-type: none"> • TFFR Salary Review Notifications • TFFR Salary Review • Annual Salary Verification Project 	
TFFR File Maintenance Audit and TFFR Refund and Purchase Audit	8%
Death Benefit Payment Audit	7.5%
Cash Management and Rebalancing Audit	7.5%
Internal Control Assessment	7.5%
Administrative Expenses Audit	3%
Investment Confirmation Audit	4%
Portfolio Monitoring Procedures - <i>Consulting</i>	1.5%
Pension System Upgrade – <i>Consulting</i>	4%
Executive Limitation Audit	9.5%
<ul style="list-style-type: none"> • SIB Customer Satisfaction Survey • ED/CIO Effectiveness Survey • Executive Limitations Audit CY 2019 • SIB Executive Review Committee Survey (If Requested) 	
External Auditor Assistance	2.5%
<ul style="list-style-type: none"> • GASB 68 Census Data Audit Notifications 	
Administrative Manual Updating - <i>Consulting</i>	2%

TEACHERS' FUND FOR RETIREMENT (TFFR) SALARY REVIEWS:

The primary purpose of employer salary reviews 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 a done as a service for the TFFR members.

TFFR Salary Review 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 2019-2020 audit plan includes performing TFFR Salary Reviews on the ten largest employers on a five-year cycle. The ten largest employers employ over half of the participants reported to the TFFR program. A total of 8 salary reviews are scheduled for the 2019-2020. 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 accurate reporting. A total of 65 member accounts from 60 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: 1,140

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

TFFR FILE MAINTENANCE AUDIT:

On an annual basis, Audit Services of the Retirement and Investment Office (RIO) will review system generated (CPAS) audit tables and reports to ensure transactions initiated by staff are expected and appropriate given an individual's role within the organization. Member account information from ten 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: 100

Audit Report Recipients: Deputy Executive Director/Chief Retirement Officer, Retirement Program Manager, Chief Financial Officer, Supervisor of Information Systems, SIB Audit Committee, and TFFR Board

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: 100

Audit Report Recipients: Deputy Executive Director/Chief Retirement Officer, Retirement Program Manager, Chief Financial Officer, Supervisor of Information Systems, SIB Audit Committee, and TFFR Board

TFFR DEATH BENEFIT PAYMENT AUDIT:

On a biannual 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.

Total Hours Allocated: 200

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

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: 250

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

INVESTMENT CONFIRMATION AUDIT:

A sample of investments will be selected and a confirmation letter will be sent to investment manager and custodial bank. This will confirm investment balances exist and that the investments are being reported accurately.

Total Hours Allocated: 100

Audit Report Recipients: Executive Director/CIO, Deputy CIO, Chief Financial Officer, SIB Audit Committee, and SIB

CASH MANAGEMENT AND REBALANCING AUDIT:

Audit Services will conduct a review of procedures of the cash management and rebalancing of the investment allocations. The following procedures will be tested as part of this audit:

- Rebalancing of asset allocations sample
- Wire transactions
- Timeliness and accuracy of client requests
- Sample of bank fees
- Review of staff access and authorization

Total Hours Allocated: 200

Audit Reports Recipients: Executive Director/Chief Investment Officer, Deputy Chief Investment Officer, Chief Financial Officer, and SIB Audit Committee

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. 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 periodically to ensure effectiveness and efficiency with internal controls.

Total Hours Allocated: 200

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

ADMINISTRATIVE EXPENSE AUDIT:

This is an audit on administrative expenses to check compliance with OMB policy and state purchasing requirements. There will also be a sampling of travel expenses to check compliance with polices.

Total Hours Allocated: 80

Audit Report Recipients: Executive Director/Chief Financial Officer, Chief Financial Officer, Supervisor of Administrative Services, 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

CONSULTING:

PENSION SYSTEM UPGRADE ASSISTANCE:

TFFR was approved for a pension system upgrade to be started in the next biennial. Audit Services can help significantly reduce risks by playing a role that is educational, consultative or audit in nature, and by bringing deep independent subject-matter expertise to the most common risk areas. Audit Service's ability to operate across the agency and across all individual work streams in a program provides visibility to risks that might otherwise be lost between silos. Audit Services also went to training on project management for internal auditors to help with the upgrade process.

Total Hours Allocated: 100

PORTFOLIO MONITORING PROCEDURES:

RIO staff has been working with Blackrock to implement a comprehensive risk management system using Blackrock's Aladdin system. This includes a module designed to monitor investment portfolios to ensure they remain investment guidelines. This will give investment staff to independently monitor investment guidelines and not be reliant on investment managers to notify if they are outside of investment guidelines. RIO investment staff will be adding additional staff and is will be working on designing procedures to regularly monitor investment portfolios. 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. Audit staff will help review procedures and provide feedback during the process.

Total Hours Allocated: 40

ADMINISTRATIVE MANUAL UPDATING:

RIO is in the process of updating its administrative manual. Internal audit will work with the Supervisor of Administrative Services on reviewing existing policies, recommending additional policies, and ensuring compliance with administrative polices.

Total Hours Allocated: 60

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

Primary Administrative Responsibilities	
Total Hours Allocated: 1,530	
Annual Leave, Sick Leave, and Holidays	42%
Staff Meetings, Reporting, Email, and Records Retention	29%
SIB Audit Committee, SIB, and TFFR Board Meetings <ul style="list-style-type: none">• Preparation and Attendance	20%
Annual Audit Planning	5%
Professional Development	4%

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 136 hours of annual leave per year (10-12 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: 640

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, 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 boards. The Supervisor of Audit Services attends (whenever possible) all SIB Audit Committee, SIB, and TFFR meetings. The staff auditor attends SIB Audit Committee meetings.

Total Hours Allocated: 300

ANNUAL AUDIT PLANNING:

Audit Services completes audit planning activities on an annual basis. The agency risk assessment will be reviewed and adjusted depending on how risks have changed. The audit plan will be risk-based. 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 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.

Total Hours Allocated: 60

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
 AUDIT SERVICES DIVISION
 BUDGETED HOURS FOR THE FISCAL YEAR JULY 1, 2019 TO JUNE 30, 2020**

	2019 -2020 BUDGET HOURS (2 FTE'S)
Primary Audit Responsibilities - Total Hours Allocated: 2,630	
Teachers' Fund for Retirement (TFFR) Salary Reviews	1,140
TFFR Salary Review Notifications	
TFFR Salary Reviews	
Annual Salary Verification Project	
Death Benefit Payment Audit	200
Teachers' Fund for Retirement (TFFR) File Maintenance Audits	100
Teachers' Fund for Retirement (TFFR) Refund and Purchases Audit	100
Pension System Upgrade Assistance	100
Internal Control Assessment	200
Cash Management and Rebalancing Audit	200
Quarterly Portfolio Monitoring Testing	200
Executive Limitations	250
Executive Limitations Audit	
SIB Customer Satisfaction Survey	
ED/CIO Effectiveness Survey	
SIB Executive Review Committee Survey (If Requested)	
Board Self-Evaluation (If Requested)	
Administrative Expenses Audit	80
External Auditor Assistance	60
GASB 68 Census Data Audit Notifications	
	2,630
% of Available Hours Allocated to Primary Audit Responsibilities	63%
Primary Administrative Responsibilities - Total Hours Allocated: 1,530	
Annual Leave, Sick Leave, and Holidays	640
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	60
	1,530
% of Available Hours Allocated to Primary Administrative Responsibilities	37%
Total 2019-2020 Budget Hours	4,160

Total Budget Hours for 2019 - 2020	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 Internal Audit

DATE: September 26, 2019

SUBJECT: Update on Current Internal Audit Activities

The Internal Audit Division has been working diligently on reengineering from a compliance division to an internal audit division. Internal Audit typically has multiple audits going on at the same time in different stages. Internal Audit staff will report what phase the pending audits are in going forward. Internal Audit proposes the following phases for tracking the status of audits:

Phase 1 – Planning and Notification
 Phase 2 – Fieldwork
 Phase 3 – Communication with Staff
 Phase 4 – Writing Report
 Phase 5 – Final Report and Management Response

Internal Audit Activities In-Progress

- Jamestown TFFR Salary Review – Phase 2
- Minot TFFR Salary Review – Phase 1
- Benefit Payment Audit (Death, Long Outstanding Checks & Long Term Annuitants)– Phase 1
- File Maintenance Audit – Phase 2
- Administrative Expense Audit – Phase 1
- SIB Client Survey – Phase 2

Other activities that Internal Audit has completed is the following activities for the external auditors CliftonLarsonAllen, LLP. In July, Internal Audit sent out twelve notifications for GASB 68 testing. In August, Internal Audit sent out twenty-four employer confirmations as part of the financial statement audit.

Internal Audit is working with Retirement Services, Administrative Services, and Information Technology Services on tracking retirement program activities. This is to document the flow of work. This will help ensure that policies and procedures are being followed and also to have an overview of the program to look for efficiencies. Also, since Retirement Services will be going through a pension software system upgrade, documenting activities will be useful for business continuity planning. This is not a time study, but instead just a tracking of activities. This started in July 2019 and will run through June 2020. It is important to do an entire year as there are different activities done at different times of the year. Documenting the workflow will also be used in the File Maintenance Audit, Benefit Payment Audit, and Internal Control Assessment.

Internal Audit will also be bringing the Audit Charter to the November meeting to change wording from Audit Services to Internal Audit to more accurately reflect the changes that have occurred in the audit division.

Internal Audit is working on multiple new audits and taking different approaches to audits that have been done in the past. Due to the changes, audit staff has proposed the following scopes for the Audit Committee to review.

Administrative Expense Audit

A review of RIO's policies pertaining to travel and expenses which will be compared to OMB policy and state purchasing requirements. A sample of travel vouchers from both board members and staff will be reviewed, including in-state, out-of-state, and international travel to ensure compliance with policy and regulations. A sample of invoices (ex. rent, cleaning, etc.) will be selected. These invoices will be reviewed to ensure proper approvals were obtained, verify invoice with expense voucher, review contract, and review that payment was issued and cleared.

Cash Management and Rebalancing Audit

A review of procedures for cash management and rebalancing of investment allocations. A sample of rebalancing of asset allocations, wire transactions, and bank fees will be selected and confirmed. Also, a sample of client requests will also be reviewed for timeliness and accuracy. Lastly, a review of staff access and authorization will be reviewed and confirmed.

TFFR Employer Salary Review

Historically, two years are reviewed and a third year was added if systemic problems are identified in the two-year period. A sample of members are selected and the accuracy of retirement salaries, member contributions, and employer contributions reported to TFFR are verified. Service hours are reviewed for reasonableness and eligibility of members is also confirmed. If problems are identified during the review, scope could be expanded to 100% of the members being reported to TFFR with the additional third year being reviewed.

Since the Internal Audit Division is focusing more on larger districts, expanding scopes will result in less mid-size employers being reviewed and possibly less other internal audits being completed. These are two possible options for the TFFR Employer Salary Reviews going forward:

1. A sample of members from two fiscal years are selected and the accuracy of retirement salaries, member contributions, and employer contributions reported to TFFR are verified. Service hours are reviewed for reasonableness and eligibility is also confirmed. Errors will be documented and forwarded to Retirement Services, but scope will not be expanded an additional year or members.
2. Keep scope the same.

Benefit Payment Audit (Death, Long Outstanding Checks & Long Term Annuitants)

Deaths: The purpose of the audit is to ensure that the 2018/19 deaths of TFFR members were processed in a timely manner and that overpayment of benefits did not occur. If benefits were overpaid in error, overpaid amounts were recovered. Deaths opened at the beginning of 2018 will be reviewed to ensure the proper documents are on file and that accounts are closed. Secondly, the death that occurred at fiscal year-end 2019 are reviewed to verify that benefit payments are suspended. Other information reviewed in the audit are the monthly North Dakota Vital Statics reports and the quarterly LifeStatus 360 reports.

Long-Outstanding Checks: The purpose of the audit is to evaluate the procedures for investigating long-outstanding checks and determine that staff are following established procedures. The following items will be reviewed as part of the audit: Retirement Services/Fiscal Services procedures, the June 2019 reconciled Bank Statement, FileNet Accounts for members that had outstanding checks, member check register in CPAS, and the Employer Services Coordinator for outstanding employer checks. Because there are so few outstanding checks all of the checks outstanding at year-end will be reviewed.

Long-term Annuitants: The purpose of the audit is to review retiree accounts that have been in payment status over an unusually long period of time to determine the propriety of payment. The following items will be reviewed as part of the audit: the retirees CPAS, FileNet, Microfiche accounts, Retirement Services procedures for monitoring on a quarterly basis, the 90 Years and older report of annuitants generated by CPAS around July 1st of 2019. A sample of long-term retirees that live out-of-state will also be reviewed.

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

August 2019

Employer Reporting Reviews

Business Managers play an important role in administering the retirement plan for ND teachers and administrators. Without your efforts, TFFR would not be as effective or efficient. The Internal Audit division of the Retirement and Investment Office recently revised the procedures used to review employer reporting of TFFR salaries, contributions, and service hours. Once Internal Audit has completed its review, the information will be forwarded to TFFR Retirement Services staff. Retirement Services will then create a TFFR Employer Reporting Review report summarizing the findings, corrections, and recommendations from the Internal Audit review. This report will be sent to the School Board President, Superintendent, and Business Manager.

In order to improve transparency and increase communication with school boards, administrators, and business managers regarding employer reporting practices, the employer will be asked to respond to the TFFR Employer Reporting Review report within 30 days as outlined below.

- Review TFFR Employer Reporting Review report and contact TFFR with any questions.
- Add TFFR Employer Reporting Review report to next regular School Board meeting agenda.

- School Board should take action to either Accept or Reject TFFR Employer Reporting Review report.
- If accepted, Superintendent and School Board President should sign and return an acknowledgement letter (a sample will be included), and provide a written explanation describing how the employer will comply with the findings, corrections, and/or recommendations.
- If rejected, Superintendent and School Board President should sign and return the acknowledgement letter, and provide a written explanation describing any areas of disagreement or reasons for rejection which will be considered.

TFFR will make any member account corrections and send the Business Manager a billing invoice for under reported contributions or a refund check if contributions were over reported. The schedules which detail the member accounts reviewed and the required corrections will also be sent to the Business Manager.

ACH Monthly Payment Option

Did you know you can send your TFFR monthly payment by ACH? Please let us know if you are interested in switching to this fast and efficient payment method and eliminate the need to mail a check each month.

ESPB Permit to Teach

To be eligible for TFFR participation a teacher must be currently licensed to teach in North Dakota by the ESPB and contractually employed in teaching, supervisory, administrative, or extracurricular services by any state institution, multi district special education unit, area career and technology center, regional education association, school board, or other governing body of a North Dakota school district.

Recent legislation created a Permit to Teach, issued by ESPB. This permit does not meet the license requirement for TFFR pension participation. If you employ individuals that only have the Permit to Teach, do not report these employees to TFFR.

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. The Member Action form should also be used to notify TFFR when a teacher is taking or returning from a leave of absence. This form provides TFFR with important information including the member's legal name, social security number, birth date, and current mailing address. If the employee is a new TFFR member, also have them complete a [Designation of Beneficiary form](#). Designating a beneficiary allows the member to direct payment of survivor benefits in the event of the member's death.

If TFFR does not 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 2019-20 school year, ESPB has declared all teacher content areas as critical shortage. Administrator positions are not critical shortage areas for 2019-20.

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, TFFR will need a [Member Action form](#).
- If you have employed a TFFR retiree, please 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 the TFFR [website](#).

GASB Statement 68 Update

The audited fiscal year [2018 GASB Statement 68](#) information is available on the TFFR 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 2019 financials.

Group Benefits Counseling Sites Scheduled

The 2019-20 Group Benefits Counseling sites have been scheduled. The location details and registration link can be found in the TFFR [Member Services Directory](#). Please help us inform your teachers about this valuable program by emailing the above link to your employees.

TFFR Employer Audit Information Corner

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.