



## ND STATE INVESTMENT BOARD AUDIT COMMITTEE

Thursday, May 20, 2021, 2:30 p.m.  
Workforce Safety & Insurance Conference Room  
1600 East Century Avenue Suite 1, Bismarck ND 58503

**Teleconference 701-328-0950, Conference ID: 749421022#**

### **AGENDA**

- I. Call to Order and Approval of Agenda – Chair (committee action) (5 minutes)
- II. Approval of February 25, 2021 Minutes – Chair (committee action) (5 minutes)
- III. Presentation of July 1, 2020 to June 30, 2021 Fiscal Year Financial Audit Scope and Approach and Final GASB 68 Schedule Audit Report – CLA, Thomas Rey (committee action) (30 minutes)
- IV. Legislative and Office Update – David Hunter (informational) (5 minutes)
- V. 2020 – 2021 Third Quarter Audit Activities Report – Sara Sauter (committee action) (20 minutes)
  - a. 2018-2019 Salary Verification – Participant Data Review
- VI. 2021 - 2022 Audit Services Work plan and Budgeted Hours– Sara Sauter (committee action)(30 minutes)
- VII. State Investment Board Governance Review – Dr. Rob Lech (committee action) (30 minutes)
- VIII. Update on Internal Audit Activities – Sara Sauter (committee action) (15 minutes)
- IX. PAS System Update – Sara Sauter (informational) (15 minutes)
  - a. Current & Future Business Model & RIO's Response
  - b. Cybersecurity Assessment Results & RIO's Response
- X. 2021 - 2022 SIB Audit Committee Meeting Schedule – Sara Sauter (committee action) (5 minutes)
- XI. 2021 - 2022 SIB Audit Committee Membership – Sara Sauter (information) (5 minutes)
- XII. Other – Next SIB Audit Committee Meeting
- XIII. **\*\*PENDING APPROVAL\*\***  
Retirement and Investment Office  
Wednesday, August 11, 2021 – 2:30 PM  
RIO Conference Room  
3442 E Century Ave  
Bismarck, ND
- XIV. Adjournment

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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  
FEBRUARY 25, 2021 MEETING**

**COMMITTEE MEMBERS PRESENT:** Yvonne Smith, PERS Board, Chair  
Rob Lech, TFFR Board, Vice Chair  
Julie Dahle, External Representative  
Jon Griffin, External Representative  
Jodi Smith, Commissioner of Dept. of Trust Lands

**STAFF PRESENT:** Bonnie Heit, Suprv of Admin Svs  
David Hunter, Exec Dir/CIO  
Jan Murtha, Dep Exec Dir/CRO  
Sara Sauter, Suprv of Internal Audit  
Dottie Thorsen, Internal Auditor  
Denise Weeks, Retirement Program Manager

**GUESTS:** Dean DePountis, 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, February 25, 2021, at Workforce Safety & Insurance (virtual host), 1600 E Century Ave., Bismarck, ND.

The following Audit Committee members were available representing a quorum; Dr. Lech, Ms. Smith, Ms. Dahle, and Mr. Griffin

**AGENDA:**

The agenda was considered for the February 25, 2021, meeting.

**IT WAS MOVED BY DR. LECH AND SECONDED BY MR. GRIFFIN AND CARRIED BY A VOICE VOTE TO APPROVE THE AGENDA FOR THE FEBRUARY 25, 2021, MEETING AS DISTRIBUTED.**

**AYES: DR. LECH, MS. DAHLE, MR. GRIFFIN, AND MS. SMITH**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER SMITH**

**MINUTES:**

**IT WAS MOVED BY MS. DAHLE AND SECONDED BY MR. GRIFFIN AND CARRIED BY A VOICE VOTE TO ACCEPT THE NOVEMBER 18, 2020, MINUTES AS DISTRIBUTED.**

**AYES: MR. GRIFFIN, DR. LECH, MS. DAHLE, AND MS. SMITH**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER SMITH**

**LEGISLATIVE UPDATE:**

Mr. Hunter reviewed Legislation affecting RIO and the SIB.

**AUDIT ACTIVITIES:**

Audit Committee - Ms. Sauter reviewed activities of Internal Audit for the period of October 1, 2020 - December 31, 2020.

RIO - The Executive Limitations Audit was issued in February 2021.

Support was provided to CliftonLarsonAllen (CLA) for the Teachers' Fund for Retirement (TFFR) GASB 68 Census Data audit and the Financial Statements audit of RIO for the period ending June 30, 2020. The Financial Statements audit of RIO was issued on November 9, 2020 and the GASB 68 Schedules of Employer Allocations and Pension Amounts by Employer was issued in December 2020.

Internal Audit is also assisting with the review of RIO's administrative policies.

Internal Audit is working on internal control guidelines for an overall assessment of processes for state agencies put forth by the Office of Management and Budget (OMB).

SIB - Cash Management and Rebalancing Audit. The audit entails a review of procedures for cash management and rebalancing of investment allocations, wire transactions, and bank fees. A review of staff access and authorization will also be reviewed. The audit is currently in progress.

TFFR - The Minot Employer Salary Review was completed in November 2020. There are no other audits in progress.

The Salary Verification Audit is in progress. On an annual basis retirement salaries and contributions reported to TFFR for the prior fiscal year for 65 randomly selected member accounts from 60 different employers are verified.

Internal Audit continues to assist in the Pension Administration System (PAS) upgrade.

**IT WAS MOVED BY DR. LECH AND SECONDED BY MS. DAHLE AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE AUDIT ACTIVITIES REPORT FOR THE PERIOD OF OCTOBER 1, 2020 - DECEMBER 31, 2020.**

**AYES: COMMISSIONER SMITH, MS. DAHLE, DR. LECH, MR. GRIFFIN, AND MS. SMITH**

**NAYS: NONE**

**MOTION CARRIED**

**EXECUTIVE LIMITATIONS AUDIT:**

Ms. Sauter reviewed the Executive Limitations audit for the period of January 1, 2020 - December 31, 2020. Internal Audit was sufficiently satisfied that the Executive Director/CIO was in compliance with SIB Governance Executive Limitation Policies A-1 through A-11.

**IT WAS MOVED BY MR. GRIFFIN AND SECONDED BY MS. DAHLE AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE REPORT ON THE EXECUTIVE LIMITATIONS AUDIT.**

**AYES: MR. GRIFFIN, MS. DAHLE, DR. LECH, COMMISSIONER SMITH, AND MS. SMITH**

**NAYS: NONE**

**MOTION CARRIED**

**AUDIT ACTIVITIES (CURRENT):**

Ms. Sauter has been working with the Executive Review Committee (ERC) on activities for the evaluation of the Executive Director/CIO. The ERC also requested Ms. Sauter administer the SIB Board Self Evaluation. The Self Evaluation was sent out on February 15, 2021.

Internal Audit continues to attend the PAS meetings. Staff wishes and wants were grouped into the following topics: the pension/administration/workflow, member portal, employer portal, actuary/audit/reports, and technical items/general features. In these sessions, staff reviewed the list of features requested and added any other features not noted. This information will be used to develop an RFP. RFP development is scheduled to start in March 2021. Ms. Sauter participates in weekly updates about the PAS system status with the consultant and other staff involved in the project.

Segal provided their report on Benefits Communications Best Practices (10 keys framework overview) in January. They are also working on a final draft of a Current Business Model Report. A Cybersecurity Assessment was completed and the report will be issued in March 2021.

Ms. Sauter has also been working with Investment Services and Retirement Services to provide Fund Facts on the SIB program and the TFFR program to the Legislature. Emails are sent to all members on a weekly basis.

Ms. Thorsen continues to work on the Salary Verification Review for fiscal year 2018/19.

**IT WAS MOVED BY DR. LECH AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE CURRENT AUDIT ACTIVITIES REPORT.**

**AYES: DR. LECH, COMMISSIONER SMITH, MS. DAHLE, MR. GRIFFIN, AND MS. SMITH**

**NAYS: NONE**

**MOTION CARRIED**

**PAS UPDATE:**

Ms. Murtha updated the Audit Committee on the PAS project. Staff is working towards a June 1 issue of the Request for Proposal (RFP) with a vendor on board by the end of the year.

Ms. Murtha also reviewed the results and recommendations of Segal's review of the agency's Benefits Communications Best Practices (10 keys framework overview).

**GASB 68 SCHEDULES AUDIT:**

The GASB 68 Schedules of Employer Allocations and Pension Amounts by Employer was issued in December 2020.

CLA's contract has concluded. The State Auditor's Office is in the process of reviewing and selecting RIO's next external auditor. The contract should be issued by March 2021.

**OTHER:**

The next Audit Committee meeting is scheduled for Thursday, May 27, 2021, at 2:30 p.m. at the Retirement and Investment Office (virtual), 3442 East Century Ave., Bismarck, ND.

With no further business to come before the Audit Committee, Ms. Smith adjourned the meeting at 4:20 p.m.

Respectfully Submitted:

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Ms. Yvonne Smith, Chair  
SIB Audit Committee

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Bonnie Heit  
Recorder



# North Dakota Retirement and Investment Office – 2021 Audit Kick-Off

May 20, 2021

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor

# Engagement Scope

- Audit of the RIO's financial statements as of June 30, 2021
- Audit of TFFR's GASB 68 schedules as of June 30, 2021
- Report on Internal Controls and Compliance (in accordance with Government Auditing Standards)
- Written Communications with the Board



# Work Plan

- Audits to be conducted in accordance with governmental auditing standards generally accepted in the United States of America
- Phased Approach – Planning, Internal Controls, Employer Census Data Testing, Substantive Testing and Reporting





# Critical Audit Areas

- Investments
- Contributions
- Benefit Payments
- Actuarial Data



# External Audit/Internal Audit Interplay

- AU 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*
  - 315 addresses how the knowledge and experience of the internal audit function can inform the external auditor's understanding of the entity and its environment and identification and assessment of risks of material misstatement. Section 315 also explains how **effective communication** between the internal and external auditors creates an environment in which the external auditor can be informed by the internal auditor of significant matters that may affect the external auditor's work.



# Government Pension Data Analytics

Your assigned audit team is versed in the use of data analytics. We have successfully utilized data analytics in our overall audit approach in the areas of:

- Contributions
- Payments/Distributions
- Actuarial Data
- Tremendous results have been obtained in our GASB participant census data testing.
- Potential management/internal audit benefits (Continuous auditing tools and training)
- **Will share results and best practices with Internal Audit to assist with moving towards 'Continuous Auditing'**



# Timing of Work

KEY MILESTONES	DATE
Planning	May 2021
Understanding and Testing of Internal Controls	May 2021 – August 2021
Census Data Testing	July - September 2021
Substantive Procedures	August - September 2021
Final Audit Reports	October – November 2021



# 2020 Audit Results – Schedules of Employer Allocations and Pension Amounts by Employer

- Independent Auditors' Report – Unmodified “clean” opinion that the schedule of employer allocations and the net pension liability, total deferred outflows, total deferred inflows and total pension expense are presented fairly, in all material respects, in conformity with U.S. Generally Accepted Accounting Principles (GAAP).
- Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
  - No material weaknesses were identified
  - No significant deficiencies were identified





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WEALTH ADVISORY | OUTSOURCING  
AUDIT, TAX, AND CONSULTING

Investment advisory services are offered through CliftonLarsonAllen  
Wealth Advisors, LLC, an SEC-registered investment advisor

**RETIREMENT AND INVESTMENT OFFICE**  
**Internal Audit**  
**2020-2021 3rd Quarter Audit Activities Report**  
**January 1, 2021 – March 31, 2021**

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

Audit coverage is based on the July 1, 2020 through June 30, 2021 work plan approved by the SIB Audit Committee. The audit activities undertaken are consistent with the Internal Audit charter and goals, and the goals of RIO. To the extent possible, our audits are being carried out in accordance with the International Standards for the Professional Practice of Internal Auditing. Audit effort is being directed to the needs of RIO and the concerns of management and the SIB Audit Committee.

**Investment and Agency Audit Activities**

- **Executive Limitation Audit**

On an annual basis, Internal Audit reviews the Executive Director/CIO's level of compliance with SIB Governance Manual Executive Limitation Policies A- 1 through A-11. The Executive Limitations Audit was started in December 2020.

The report was issued in February 2021 and approved by the Audit Committee at the February meeting.

- **Executive Review Committee**

In February 2021, the Executive Review Committee requested Internal Audit's assistance in administering a board self-evaluation. Internal Audit administered the evaluation, collected the responses, and reported the results to the State Investment Board on April 23, 2021.

The Executive Review Committee also annually evaluates the Executive Director/CIO of the North Dakota Retirement and Investment Office, Mr. David Hunter. Internal Audit's assistance was required to facilitate a survey to the current SIB members and a survey to RIO staff. The survey to RIO staff was completed in March 2021 and the SIB survey was administered in March/April 2021. Internal Audit compiled the results and reported to the Executive Review Committee.

- **External Audit Support**

The contract with RIO's external auditors expired with the completion of the 2019/20 annual audits. The State Auditor's Office issued a RFP during the third quarter and selected CLA again as RIO's external audit partner for the next three years. Thomas Rey, CLA, will be presenting the audit scope and approach for fiscal year 2020/2021 at the May Audit Committee meeting. CLA will be remotely conducting the preliminary fieldwork for the audit starting in June of 2021. They are planning to be on-site for the final field work in August 2021.

- **Administrative Policy Review**

The Deputy Executive Director/Chief Retirement Officer, Supervisor of Administrative Services /Office Manager, and Supervisor of Internal Audit are meeting regularly to revise the administrative policy manual for RIO staff. The policies are then forwarded to the Executive Director/Chief Investment Officer for final review, then reviewed by managers before presented to staff. Policies completed in the third quarter are the Grievance Policy, Media Inquiries, Recruitment and Retention Bonus, Time Off to

Vote, Travel, and Tuition Reimbursement. The policy manual should be complete (with the exception of the IT policies) by June 30, 2021.

- **Cash Management and Rebalancing Audit**

A review of procedures for cash management and rebalancing of investment allocations was initiated. A sample of rebalancing of asset allocations, wire transactions, and bank fees will be selected and confirmed. Secondly, 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.

This audit is currently in progress.

- **Internal Control Assessment**

Internal audit is working on an internal control guideline assessment put forth by the North Dakota Office of Management and Budget. This is an overall assessment on processes for state agencies.

This assessment is currently in progress.

### **Retirement Program Audit Activities**

- **TFFR Employer Salary Reviews**

Internal Audit examines employer reporting to the Teachers' Fund for Retirement (TFFR) to determine whether retirement salaries and contributions reported for members of TFFR are accurate and comply with the definition of salary as it appears in the TFFR Employer Guide. Other reporting procedures reviewed during the audit process are calculation of service hours and eligibility for TFFR membership. A written report is issued to Retirement Services after the review is completed.

Status of TFFR Employer Audits as of March 31, 2021:

- The Minot Employer audit was completed and the report issued Nov 2020.
- There are no other employer reviews in progress.

- **Salary Verification /Participant Data Review**

On an annual basis Internal Audit verifies retirement salaries and contributions reported to TFFR for the prior fiscal year for 65 randomly selected member accounts from 60 different employers. The sample was selected, notifications were sent for the required information, and information had been returned by the employers in the second and third quarters of 2019/20. The review of the information was scheduled to be completed in spring of 2020.

There was a delay in the start of Phase 2 and 3 of the review due to additional duties acquired by Internal Audit during the pandemic and the initiation of the PAS project. A majority of the audit field work occurred during the second and third quarters of fiscal year 2020-21.

This report for the completed review dated May 11, 2021 was issued to Retirement Services. The report is included in the May meeting materials.

- **Pension Administration System Upgrade**

The Supervisor of Internal Audit was a member of the PAS Committee. The RFP for hiring a consultant went out in June of 2020. The first two weeks of July, the Supervisor of Internal Audit helped evaluate the proposals that were received. A consultant, Segal, was selected and a contract was negotiated in October 2020. RIO then entered Stage I of the PAS project. Both the Supervisor of Internal Audit and the Internal Auditor participated in meetings with the Consultant during the months of November, December, and January.



Stage 1 of the Project was completed March of 2021. The consultant, Segal, completed the Benefits Communications Best Practices report which was presented to the Audit Committee at the February 2021 meeting. The final two reports – Current and Future Business Model and Cybersecurity Assessments reports were issued and presented to the TFFR Board in March 2021. The reports are included in the May 2021 Audit Committee meeting materials for review and discussion at the May Audit Committee meeting.

RIO entered Stage 2 of the project during the months of April and May, staff has been working with the consultant on the development of the RFP for the new pension administration system. The RFP should be issued at some time during the month of June 2021. RIO has maintained the established timeline set for the completion of Stages 1 and 2 of the PAS project

#### **Administrative Activities**

The Supervisor of Internal Audit attended the monthly RIO staff meetings, monthly RIO manager's meetings, divisional meetings, three SIB meetings, and two TFFR meetings. The Internal Audit staff member attended the monthly RIO staff meetings, divisional meetings, two TFFR meetings and two SIB meetings.

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

The Supervisor of Internal Audit participated in training with the rest of the management team of RIO on strength training and how to work together.

The Internal Auditor attended virtual training for IT Authentication and TEAMS phone training.

### Risk Rating Legend

1	High Risk -Fraud, repeat findings that are high risk and/or have stiff penalties, intentional policy infractions. Will be reported to the Audit Committee.
2	Elevated Risk - State law findings, Board policy findings, repeat findings of low or elevated risk, reoccurring themes.
3	Moderate Risk - Internal policy finding that represent higher risk to the agency.
4	Low Risk - Internal policy initial findings, no internal procedures documented, appear to be oversight/not on purpose, identification of missing documents.
5	Process Improvement - A recommendation to consider improving the current process/update the procedure/policy.

Internal Audit  
North Dakota Retirement and Investment Office  
**2018-2019 Salary Verification – Participant Data Review**  
**Final Report**  
MAY 11, 2021

### **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 (IA) randomly selects a group of member accounts and requests additional information from participating employers for the purpose of verifying reported retirement salaries. There are 211 employers reporting to TFFR under five models: Model 0 – 4 employers, Model 1 – 81 employers, Model 2 All – 77 employers, Model 2 Partial – 44 employers, and Model 4 – 5 employers.

### **Results Summary**

The retirement salaries reported to TFFR in 2018-2019 for the sixty-five member accounts were reviewed. The sample consisted of the following: twenty-one members from Model 1, thirty-one members from Model 2 All, and thirteen members from Model 2 Partial. Reporting errors were identified on nineteen member accounts (approximately 29% of the sample). IA has three recommendations.

(1) There are sixteen member accounts recommended for corrections due to the material dollar amount of the error. Three additional members had salary errors, but were not material amounts needing corrections. This error is an **elevated risk**.

(2) IA recommends that Retirement Services (RS's) request master payroll files from various employers or contact the business manager to ensure that the errors found are not systemic affecting other members. If RS's determines the error to be systemic, IA recommends reviewing the most current three years of salary (if applicable) using the master payroll files. This error is an **elevated risk**.

(3) It is TFFR's responsibility to determine that Employers are reporting in compliance with the specifications set by the Employer Payment Plan submitted. For Model 2 Partial, the employer picks-up a portion of the member contribution of 11.75%. The percentage of the member contributions designated as paid by the member should show as a deduction from salary paid on the payroll records. TFFR's current pension accounting system does not validate the pick-up percentage and the member percentage (only validates 11.75%). The two percentage amounts should equal the 11.75 % member contribution. Thirteen of the sample members were reported to TFFR under Model 2 Partial.

IA found that two of the thirteen sample member's payroll records appeared to be not in compliance with the reporting under this model. The percentage of designated member contributions paid by the member as required for the employer payment plan submitted was not deducted from salary earned. IA recommends that RS's validate these percentages on an annual basis for one member from the employer during first or second quarter of the fiscal year to ensure model compliance with the employer payment plan submitted to TFFR. This recommendation is **an interim procedure** until TFFR selects and institutes a new pension administrative software. The new system would be programmed to validate the percentages in the employer upload process. This error is an **elevated risk**.

In conclusion, RS's should notify IA with their responses to the errors found in this review by June 30, 2021.

### **Scope**

The accuracy of retirement salaries, member contributions, model compliance, and employer contributions reported to TFFR for the 2018-2019 fiscal year were verified. Service hours reported in 2018-2019 were reviewed for reasonableness and eligibility was confirmed via an ESPB search.

### **Observations, Conclusions and Recommendations**

IA provided the following information to RS's at the close of this review: a report, three electronic workbooks (one for each Model) that contains the salary reconciliations for the 65 sample members, the IA worksheets, and the Primary Test for all recommended corrections. IA will also provide all of the supporting documentation for the salary reconciliations where errors were noted. All of the documentation that supports the sixty-five salary reconciliations will be scanned to the member accounts.

IA reviewed a total of sixty-five member accounts. There were sixteen member accounts with errors that are recommended for corrections due to the material dollar amounts which are detailed below. Three-member accounts were noted with a reporting error, but no correction will be recommended due to the amount of the adjustment being immaterial. Individual identifying information has been eliminated by IA. The participating employers with errors are identified.

#### **Apple Creek (08-039) – Model 2 Partial**

The following two errors were noted: A portion of the eligible after-school salary paid was not reported to TFFR. This error resulted in a shortage of contributions. Secondly, the employer submitted payroll records that did not meet Model 2 Partial reporting compliance. The amount of the TFFR contribution deducted from the member's salary did not meet the 9.75% required by the employer payment plan submitted to TFFR. RS's should request the master payroll file to ensure that the errors were not systemic issues affecting other members, or contact the business manager to verify that the errors are not systemic. IA recommends correcting the account and has attached details of the corrections on the salary reconciliations and Primary Test.

#### **Belcourt (40-027) Model 2 All – two sample members**

The following two errors were noted. First, the employer reported grant salary in the wrong fiscal year to TFFR. Secondly, comp-time was issued to a member for eligible administrative duties. At fiscal year-end, salary was paid for comp-time not taken. The eligible salary (comp-time) for the administrative duties was not reported to TFFR. IA recommends that the grant salary be moved to the correct year and also correct the member account for the shortage of salary not reported. RS should request the master payroll file to ensure that the errors were not systemic issues affecting other members, or contact the business manager to verify that the errors are not systemic. IA has recommended correcting the two accounts and has attached details of the corrections on the salary reconciliations and Primary Test for the members affected.

#### **Bottineau (05-001) Model 2 All**

The employer had an error in reporting leave to TFFR. This caused an overpayment of salary and contributions. The amount was immaterial (less than \$300.00) and appeared to be an isolated error. IA does not recommend any correction to the account. IA has attached details of the corrections on the salary reconciliation and Primary Test.

#### **Bowbells (07-014) Model 1**

The employer did not report eligible school improvement salary to TFFR. This caused a shortage of salary and contributions. RS's should request the master payroll file to ensure that the error was not a systemic issue affecting other members, or contact the business manager to verify that the errors are not systemic. IA recommends correcting the account and has attached details of the corrections on the salary reconciliation and Primary Test.

#### **Center-Stanton (33-001) Model 2 All**

The employer reported salary and contributions that exceeded the eligible amount. IA could not tie the overpayment to a single salary code. The member was paid cash in lieu of a health benefit, but the amount overpaid was not the same as the cash in lieu amount paid. RS should request the master payroll file to ensure that the error was not a systemic issue affecting other members, or contact the business manager to verify that the error did not affect other members. IA recommends correcting the account and has attached details of the corrections on the salary reconciliations and Primary Test.

#### **Devil's Lake (36-001) Model 2 All - 2 sample members**

The following two errors were noted. The travel time paid for moving between schools is eligible salary that was not reported to TFFR for one member. As part of the member's teaching position, the member travels between multiple schools throughout the days of the week. This caused a shortage of salary and contributions to be reported. For the second error, extra-curricular hockey supervision was not reported (immaterial amount). For errors' one and two, RS's should request the master payroll file or contact the business manager to ensure the

error did not affect other members. IA recommends correcting the account for error one and has attached details of the corrections on the salary reconciliation and Primary Test. The second error was an immaterial amount that IA does not recommend correcting.

Drayton (34-019) Model 1

The employer reported student council salary in the wrong fiscal year. The salary must be reported in the fiscal year in which it was earned, regardless of when it is paid. The salary should be moved to the correct fiscal year. RS's should contact the business manager to ensure that the error is not a systemic issue affecting other members. IA recommends correcting the account and has attached details of the corrections on the salary reconciliation and Primary Test.

Dunseith (10-001) Model 2 All

The employer reported an incorrect amount of contract salary. The error caused an overpayment of salary and contributions. RS's should contact the business manager to ensure that the error is not a systemic issue affecting other members. IA recommends correcting the account and has attached details of the corrections on the salary reconciliation and Primary Test.

Elgin (19-049) Model 2 Partial

The employer reported 2017-18 sixth period salary in the wrong fiscal year. The salary must be reported in the fiscal year in which it was earned, regardless of when it is paid. The salary should be moved to the correct fiscal year. IA recommends correcting the account and has attached details of the corrections on the salary reconciliations and Primary Test.

Glenburn (38-026) Model 2 All

The employer reported ineligible bus driving salary and a leave payout amount. This caused an overpayment of salary and contributions. RS should request the master payroll file or contact the business manager to ensure these errors did not affect other members. IA recommends correcting the account and has attached details of the corrections on the salary reconciliation and Primary Test.

Halliday (13-019) Model 1 and Model 2 Partial

The employer did not report eligible IT Coordinator and contract salary that resulted in a shortage of contributions for one member. The error also caused the wrong number of service hours to be reported (part-time position). RS's should contact the business manager to ensure that these errors did not affect any other members. IA recommends correcting the account and has attached details of the corrections on the salary reconciliations, Schedule 5- Service hours' correction, and Primary Test.

Hettinger (01-013) Model 2 All

The employer did not report eligible extra-curricular salary to TFFR: playground supervision and pool assistant salary (swimming lessons). The error caused a shortage in contributions. RS's should request the master payroll file or contact the business manager to ensure that these errors are not systemic issues affecting other members. IA recommends correcting the account and has attached details of the corrections on the salary reconciliations and Primary Test.

James River Multi-District Special Education Unit (09-001) Model 1

The employer programming of deductions caused an error in reporting salary to TFFR. The error caused a shortage in contributions. 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 recommends correcting the account and has attached details of the corrections on the salary reconciliations and Primary Test.

Maple Valley (09-004) Model 2 All

The employer did not report eligible subbing salary. The employer sent the 2017-18 and 2018-19 salary records. The error was isolated: subbing was reported one year and not the next year. Since the amount of salary not reported was immaterial (less than \$300.00), IA is not recommending a correction to the member's account. RS's should ask the business manager to ensure that error is not a systemic issue affecting other members. IA has attached details of the corrections on the salary reconciliation and Primary Test.

#### Nesson (53-002) Model 1

The employer corrected a deduction error and reported the ineligible adjustment to TFFR. The error caused an overpayment of contributions. IA recommends correcting the account and has attached details of the corrections on the salary reconciliations and Primary Test.

#### Sheyenne Valley Special Education (02-001) Model 2 Partial

The employer submitted payroll records that did not meet Model 2 Partial reporting compliance. The amount of the TFFR contribution deducted from the member's salary did not meet the 2.0 percent required by the employer payment plan submitted to TFFR. RS's should request the master payroll file to ensure that the error is not a systemic issue affecting other members, or contact the business manager to verify that the error does not affect other members. IA has attached details of the corrections on the salary reconciliations and Primary Test.

#### Wahpeton (39-037) Model 2 All

The employer did not report eligible extra-curricular salary (thespians) to TFFR. There was also an error with the programming of deductions. These errors caused a shortage of contributions. The error with the thespian salary had already occurred with another member (correction was found in the Employer's FileNet account). RS's should request the master payroll file or contact the business manager to ensure that these errors do not affect other members. IA recommends correcting the account for fiscal years 2017-18 and 2018-19 and has attached details of the corrections on the salary reconciliations and Primary Test.

# Salary Verification- Participant Data Review

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FOR FISCAL YEAR 2018/19

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# Salary Verification/Participant Data Review

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Purpose of the review:

Verify eligibility

Verify eligible salary reported

Verify service hours reported (if unreasonable)

Verify Model Compliance



# Audit Planning and Notification Phase I

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- Request data analytics file from IT - all salary increases from one year to the next - \$5,000.00 or over
- Analyze information and select 65 sample members
- Request to employer for contract, payroll records, and explanation of salary increase

# Fieldwork and Communication with Employer and Staff – Phase 2 and 3

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- Reconcile the information received from employer
- Request additional information from employer if needed
- Communication with Employer if there are questions
- Communicate with Retirement Services staff if there are questions

# Phase 4 and 5 write and issue report to Retirement Services

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- Issue report
- Provide electronic workbooks for Model 1, Model 2, and Model 2 Partial
- Workbooks contain IA worksheets, salary reconciliations, and Primary Tests (used for corrections)
- Provide supporting documentation for errors (emails and documents from employer)
- Salary reconciliations and supporting documentation is scanned to 65 member accounts

# There were nineteen errors found. IA recommends corrections to 16 accounts.

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- Eligible Salary not reported – after-school, administrative duties, contract, IT Coordinator, school improvement, supervision at sporting events, travel between schools, playground/hockey supervision, pool assistant (swimming lessons), and thespians
- Reported ineligible salary – busing, reimbursed leave, vacation buyout
- Salary reported in the wrong fiscal
- Programming of deductions caused salary errors
- One service hour error due to the part-time nature of the position
- Model compliance issues with Model 2 Partial – employer pick-up, member percentage which equals the 11.75 member contribution

# Total Amount of Errors Found

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	<u>Member Contributions</u>	<u>Employer Contributions</u>	<u>Salary</u>	
■ Model 1	\$678.81	\$736.73	\$5,777.80	Shortage
■ Model 2 Partial	\$615.46	\$667.80	\$5,237.59	Shortage
■ Model 2 All	<b>\$1,556.43</b>	<b>\$1,688.96</b>	<b>\$13,246.04</b>	Overpaid

# Internal Audit Recommendations

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1. There are sixteen member accounts recommended for corrections due to the material amount of the error – includes the one service hours correction.
2. IA recommends that Retirement Services request master payroll files from various employers or contact the business managers to ensure that the errors found are not systemic affecting other members. If errors are systemic, verify that the error did not occur in the most current three-year period.
3. It is TFFR's responsibility to determine that Employers are reporting in compliance with the specifications set by the Employer Payment Plan submitted. IA recommends that Retirement Services validate the employer pick-up% and the member % the first or second quarter of the year for one member to ensure correct amounts are deducted from the member salary. **This would be an interim procedure.** The new pension administrative software would automatically validate during the employer upload.

# NDAC 82-04-01-02

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The participating employer's plan to pay member contributions must comply with the fund's "plan for payment of member contributions to the fund" or other instructions prepared by the fund.

The Administrative Code does not list the models. The TFFR Board established the employer payment plans. TFFR staff should ensure that employers are following model compliance with the Employer Payment Plan they submitted.

# Findings in Past Salary Verification/ Participant Data Reviews

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	Errors	Sample	Percentage
■ 2015/16	14	50	28% of sample reviewed
■ 2016/17	3	50	6% of sample reviewed
■ 2017/18	11	64	17% of sample reviewed
■ 2018/19	19	65	29% of sample reviewed



# Questions?

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## MEMORANDUM

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

**FROM:** Sara Sauter, Supervisor of Internal Audit

**DATE:** May 20, 2021

**SUBJECT:** 2021 - 2022 Internal Audit Workplan

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The following information details the proposed workplan for Internal Audit for 2021 – 2022. This workplan represents what Internal Audit 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. Internal Audit will allocate resources to the following audit activities during fiscal year 2022:

<b>Primary Audit Responsibilities - Total Hours Allocated: 2,425</b>		Hours
Teacher's Fund for Retirement (TFFR) Salary Reviews		700
TFFR File Maintenance Audit		210
TFFR Refund and Purchase Audit		120
TFFR Death Audit		150
Pension Administration System Project		400
Internal Control Assessment		115
Cash Management and Rebalancing Audit		200
Investment Confirmation Audit		100
Executive Limitation		210
Executive Limitation Audit		
SIB Customer Satisfaction Survey		
ED/CIO Effectiveness Survey		
SIB Executive Review Committee		
General Consulting		60
External Auditor Assistance		160

### 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 2021-2022 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 2 salary reviews are scheduled for the 2021-2022.

The Participant Data Review 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 Internal Audit, have been notified of an upcoming audit by Internal Audit, have been audited by Internal Audit 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: 700

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

**TFFR FILE MAINTENANCE AUDIT:**

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 RIO staff are expected and appropriate given the role in the organization. The processes for entering information from Member Action Forms, Change of Address forms, and Point of Contact forms are also reviewed. A sample of members will be reviewed for each of the processes to verify the information on the form is the same as the information in the system.

Total Hours Allocated: 210

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

**TFFR REFUND AND PURCHASE AUDIT:**

On an annual basis, Internal Audit verifies the accuracy of the reporting of lump sum payments, lump sum purchases of service credit, and installment purchases of service credit. Procedures for lump sum payments (refunds) and purchases are reviewed. Internal Audit also verifies that the transactions reviewed are found on the staff member's system generated audit table reports (CPAS) and that the proper documents are found in the member's FileNet account.

Total Hours Allocated: 120

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

**TFFR DEATH AUDIT:**

The purpose of the audit is to ensure that the deaths of TFFR members were processed in a timely manner and that overpayment of benefits did not occur. If benefits were overpaid in error, Internal Audit verifies that overpaid amounts were recovered. Deaths opened as of July 2020 will be reviewed to ensure the proper documents are on file and that accounts are closed. Secondly, the deaths that occurred at fiscal year-end (June 2021) 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.

Total Hours Allocated: 150

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

**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, Internal Audit 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, Internal Audit facilitates a customer satisfaction survey which is administered to SIB investment clients. At the request of the SIB Executive Review Committee, Internal Audit 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: 210

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 the investment manager and custodial bank. This will confirm that 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:**

Internal Audit 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. Internal audit is working on an internal control guideline assessment put forth by the North Dakota Office of Management and Budget. This is an overall assessment on processes for state agencies. This assessment will be completed first, and then reviewed to determine where further action is needed.

Total Hours Allocated: 115

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

**EXTERNAL AUDITOR ASSISTANCE:**

Internal Audit assists our external auditor, CliftonLarsonAllen (CLA), with a variety of tasks related to the annual financial audit. In particular, Internal Audit is responsible for notifying participating employers that they have been selected to participate in an upcoming GASB 68 Census Data Audit. Internal Audit is also responsible for ensuring any information requested from participating employers is provided timely to our external audit partners. Since CLA will not be onsite for preliminary fieldwork, Internal Audit will likely become more involved with the external audit assistance in preparing documents and gathering information.

Total Hours Allocated: 160

**VENDOR DUE DILIGENCE:**

Vendor due diligence is essential, not only to decrease threats to business operations and financial stability but also to reduce compliance risk and reputation risk. Vendor due diligence is not a onetime event and should be an ongoing process. Vendor due diligence will be reviewed on the third parties that RIO utilizes.

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

**CONSULTING:**

**PENSION SYSTEM UPGRADE ASSISTANCE:**

Internal Audit staff has been a part of Stage 1 and Stage 2 of the Pension Administration System (PAS) upgrade. For the upcoming fiscal year, the Supervisor of Internal Audit will be a part of the evaluation team for the RFP and contract meetings. Internal Audit staff will also participate in the finalists' system demos. Stage 3 for the PAS upgrade is expected to start December 2021 and audit staff will also be involved in the implementation phase of the project.

Total Hours Allocated: 400

**GENERAL CONSULTING:**

Internal Audit has been embraced by many of the divisions within RIO and consulted with on various topics throughout the year. Consulting on a project, policy, or issue can be essential in mitigating risk in various areas.

Total Hours Allocated: 60

**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 within investment guidelines. This will give investment staff the opportunity to independently monitor investment guidelines and not be reliant on investment managers for notification if they are outside of the set guidelines. RIO has added additional investment staff and 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.

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Internal Audit will allocate resources to the following administrative activities during fiscal year 2022:

<b>Primary Administrative Responsibilities - Total Hours Allocated: 1,735</b>		Hours
Annual Leave, Sick Leave, and Holidays		695
Staff Meetings, Reporting, Email, and Records Retention		450
SIB Audit Committee, SIB, and TFFR Board Meeting		450
Preparation and Attendance		
Annual Audit Planning		60
Professional Development		80

**ANNUAL LEAVE, SICK LEAVE, AND HOLIDAYS:**

The staff auditor earns 192 hours of annual leave per year (16 hours per month). The Supervisor of Internal Audit earns 144 hours of annual leave per year (12 hours per month). The current workplan makes an allowance for each staff member to utilize 100 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: 695

**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. Internal Audit participates in division 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 Internal Audit 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 Internal Audit provides quarterly updates to both of these boards. The Supervisor of Internal Audit attends (whenever possible) all SIB Audit Committee, SIB, and TFFR meetings. The staff auditor attends SIB Audit Committee meetings and TFFR Board meetings.

Total Hours Allocated: 450

#### **ANNUAL AUDIT PLANNING:**

Internal Audit 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: 60

#### **PROFESSIONAL DEVELOPMENT**

Professional development and continuing education opportunities are critical to continued professional success. All staff members of Internal Audit are members of the Institute of Internal Auditors (IIA). Staff members attend educational opportunities provided by our local IIA chapter when available. The IIA also offers free webinars to all IIA members throughout the year which cover a variety of auditing related topics. RIO is also a member of the Association of Public Pension Fund Auditors (APPFA). APPFA is working with the Public Pension Forum (P2F2) on providing virtual education in the fall. Staff is planning to attend the virtual training provided through the P2F2 annual conference. Staff will try to attend one or two-day training seminars offered by our local IIA chapter if and when such opportunities are available under current budgetary constraints.

Total Hours Allocated: 80

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**  
**INTERNAL AUDIT DIVISIONS**  
**BUDGETED HOURS FOR THE FISCAL YEAR JULY 1, 2021 TO JUNE 30, 2022**

	<b>2021 -2022 BUDGET HOURS (2 FTE'S)</b>
<b>Primary Audit Responsibilities - Total Hours Allocated: 2,575</b>	
Teachers' Fund for Retirement (TFFR) Salary Reviews	700
TFFR Salary Review Notifications	
TFFR Salary Reviews	
Annual Salary Verification Project	
TFFR File Maintenance Audits	210
TFFR Refund and Purchases Audit	160
TFFR Death Audit	110
Pension System Upgrade Assistance	400
Internal Control Assessment	115
Cash Management and Rebalancing Audit	200
Investment Confirmation Audit	100
Executive Limitations	210
Executive Limitations Audit	
SIB Customer Satisfaction Survey	
ED/CIO Effectiveness Survey	
SIB Executive Review Committee Survey (If Requested)	
Board Self-Evaluation (If Requested)	
General Consulting	60
External Auditor Assistance	160
GASB 68 Census Data Audit Notifications	
	2,425
<b>% of Available Hours Allocated to Primary Audit Responsibilities</b>	58%
<b>Primary Administrative Responsibilities - Total Hours Allocated: 1,585</b>	
Annual Leave, Sick Leave, and Holidays	695
Staff Meetings, Reporting, Email, and Records Retention	450
SIB Audit Committee, SIB, and TFFR Board Meetings	450
Preparation and Attendance	
Annual Audit Planning	60
Professional Development	80
	1,735
<b>% of Available Hours Allocated to Primary Administrative Responsibilities</b>	42%
<b>Total 2019-2020 Budget Hours</b>	<b>4,160</b>
Total Budget Hours for 2020 - 2021	4,160
Budget Hours for D. Thorsen	2,080
Budget Hours for S. Sauter	2,080

# MEMORANDUM

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

**FROM:** Chair, Lt. Governor Sanford and Vice Chair, Dr. Robert Lech

**DATE:** May 21, 2021

**SUBJECT:** Governance

The State Investment Board has long prided itself on the established strong governance policies that all Board members followed. However, recently there have been concerns where a Board member(s) may or may not have followed the proper process with their ideas or concerns. As every Board member has other roles outside of the State Investment Board, Board members must follow the governance structure and understand their role as a Board member. It is crucial to do a review when there is any situation that a Board member may have acted outside the SIB governance.

The Open Compliance and Ethics Group states "Governance is the culture, values, mission, structure and layers of policies and measures by which organizations are directed and controlled. The tone at the top that is set, followed and communicated is critical to success." Governance is a system and process, not a single activity. Therefore, the successful implementation of a good governance strategy requires a systematic approach that incorporates strategic planning, risk management, and performance management. Like culture, it is a core component of the unique characteristics of a successful board.

On April 28, 2021, Treasurer Thomas Beadle made a request to Callan, the SIB investment consultant, for due diligence because he had concerns expressed by several outside entities voiced to him. Callan has provided the requested documentation to Treasurer Beadle. This request raises the issue of how Board members should address due diligence concerns on an individual basis or on a Board basis.

Board Governance *Policy B-2 Governing Style* in *Section B Governance Process* states the board will:

- 1. Cultivate a sense of group responsibility. The board, not the staff, will be responsible for excellence in governing. The board will strive to be an initiator of policy, not merely a reactor to staff initiatives. The board will strive to use the expertise of individual members to enhance the ability of the board as a body, rather than to substitute the individual judgments for the board's values.***
- 2. Direct, control, and inspire the organization through the careful establishment of the broadest written policies reflecting the board's values and perspectives. The board's major focus will be on the intended long-term impacts outside the operating organization (Ends), not on the administrative or programmatic means of attaining those effects.***
- 3. Enforce upon itself whatever discipline is needed to govern with excellence. Discipline will apply to matters such as attendance, policy-making principles, respect of roles, and ensuring the continuity of governance capability.***
- 4. After speaking with one voice, self-police any tendency to stray from adopted board governance policies. The board will not allow any officer, member, or committee of the board to hinder or be an excuse for not fulfilling its commitments. The board respects the right of any member, as an individual, to publicly disagree with an adopted board policy. Board members will accurately portray board policies and decisions.***



This has been interpreted in the past that the Board will speak with one voice after topics are discussed at a Board level. Discussions and approvals concerning matters such as due diligence and press releases would be brought in front of the full board or be authorized by the Board Chair. With the recent events it is unclear if the policy is being interpreted by Board members to be able to individually speak and be able to do inquiries on behalf the Board without discussions or approval.

First, the Board needs to clarify and enforce the interpretation of speaking with one voice:

1. The Board is to speak as one voice and all inquiries (e.g. due diligence, interviews, press releases) are to be discussed and approved with the full Board at a meeting or approved by the Board Chair.

Or

2. If the Board decides that Board members may speak on behalf of the Board without Board discussion and approval or Board Chair approval.

If the Board decides that Board members are allowed to act and speak on behalf of the Board without discussion and approval from the Board or Board Chair, then amendments to current policy are needed to avoid conflicts of interest and liability for the Board and its members. If the Board decides to speak as one voice, enhanced policy and procedures are needed.

Secondly, elected officials acting as Board members need to ensure they are acting in their role as a Board member and not as their role as an elected official. As stated in *Governance Process Board Members' Code of Conduct B-8*, "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." Elected officials must ensure that they are unswayed by partisan interest, public sentiment, or fear of criticism which is also stated in the same section of the governance manual. If the Board decides to allow members to speak on behalf of the Board without discussion or approval, then enhanced policy measures are needed to assist Board members to avoid the appearance of conflict.

Lastly, if the Board decides that the Board does speak with one voice and matters concerning the Board or Board directives need to be discussed and approved, then the SIB Chair has requested assistance from the Audit Committee to address the concern of whether Treasurer Beadle went outside the bounds of the governance policy with his request to Callan. This would include:

1. The review letter from Treasurer Thomas Beadle
  - a. See if proper governance was followed
    - i. Including talking to board members and staff
      1. Supporting documentation (e.g. emails)
      2. Open Records
  - b. How Treasurer Beadle communicated to entities
    - i. What kind of documentation was provided to the entities, if any
  - c. Report on any findings or conclusions
2. Recommendations, if any
  - a. Policy
  - b. Procedure
  - c. Training
3. Report and recommendations
4. Board leadership will bring forth any recommendations for board discussion

In the interim it is recommended that the Board adopt the following:

“Official inquiries and media press releases by any one board member(s) are not allowed without a discussion and approval from Board Chair or full Board.”

This is to ensure that the Board is adhering to the *policy B-2 Governing Style* in *Section B Governance Process*. This also protects board members to ensure they are not being influenced by outside parties and/or doing any self-promoting activities, and avoiding the appearance of conflict of interest.

# MEMORANDUM

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

**FROM:** Sara Sauter, Supervisor of Internal Audit

**DATE:** May 20, 2021

**SUBJECT:** Update on Current Internal Audit Activities during the fourth quarter

Internal Audit typically has multiple audits going on at the same time in different stages. The following is the status of current audits in progress:

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

- Cash Management and Rebalancing Audit - Phase 2
- Internal Control Assessment – Phase 2
- RIO Policy Manual update – Phase 2
- PAS –Pension Administration Software – Stage 2
- Salary Verification Audit – Phase 5
- TFFR File Maintenance – Phase 1

The Executive Review Committee requested that the Supervisor of Internal Audit administer the SIB Board Self Evaluation. The SIB Board Self Evaluation survey was sent to the Board Members February 15, 2021 and the results reported to the SIB on April 22, 2021.

The Supervisor of Internal Audit has also been working with the Executive Review Committee on activities for the evaluation of the Executive Director/CIO. The assistance has included administering surveys, collecting data, helping put together meeting material packets, and attending meetings.

Stage 1 of the PAS Project was completed March of 2021. The consultant, Segal, completed and issued the Benefits Communications Best Practices report – 10 Keys Framework Overview (January 2021), the Current and Future Business Model report (March 2021) and the Cybersecurity Assessments report (March 2021).

RIO entered Stage 2 of the project during the months of April and May, staff has been working with the consultant on the development of the RFP for the new pension administration system software. The RFP should be issued at some time during the month of June 2021. RIO has maintained the established timeline set for the completion of Stages 1 and 2 of the PAS project.

Annual performance evaluations are completed in the May-June timeframe. Internal audit staff will be working on their performance reviews. The three stages in the review process are as follows: self-evaluation, division manager evaluation, and overall review/evaluation completed by the Executive Director/CIO or the Audit Committee.

The Supervisor of Internal Audit has been working with Investment Services and Retirement Services to provide Fund Facts to the Legislature. Emails were sent to all members on a weekly basis. Attached are the Fund Facts that have been sent out.

The Supervisor of Internal Audit has been working with the Deputy Executive Director/Chief Retirement Officer and the Supervisor of Administrative Services/Office Manager on a review of the procurement process. This review occurred to ensure that the proper procedures are followed in the renewal of expiring contracts for services.

#### Upcoming Audit Activities

Internal Audit will be providing assistance to our external audit partners, CliftonLarsonAllen (CLA), during the financial audit of the RIO as well as the GASB 68 census data audits. CLA will not be coming onsite for the preliminary audit work in June 2021. They will likely be requesting information from staff.

Internal Audit will be working with Administrative Services on the annual Risk Management Report in June 2021. Upon completing the report and meeting all the criteria, RIO will be eligible for up to a 15% discount on Risk Management premiums. Throughout the summer, Internal Audit and Administrative Services will also be working together on the Worker's Compensation report to receive up to a 15% discount on those premiums.

The RFP responses for the PAS project are anticipated to be received in the middle of July and an evaluation will occur in July/August 2021. The Supervisor of Internal Audit is a part of the review committee.

The Supervisor of Internal Audit is also participating in a review on the SIB governance manual to ensure that Board members are following the governance structure.

#### IA is proposing the following scopes for upcoming audits:

- TFFR File Maintenance – On an annual basis, IA reviews system generated audit tables to ensure transactions initiated by RIO staff are expected and appropriate. The processes for entering information from Member Action Forms, Change of Address forms, and Point of Contact forms are also reviewed.
- TFFR Death Audit - The purpose of the audit is to ensure that the deaths of TFFR members were processed in a timely manner and that overpayment of benefits did not occur. If benefits were overpaid in error, IA verifies that overpaid amounts were recovered. Deaths opened as of July 2020 will be reviewed to ensure the proper documents are on file and that accounts are closed. Secondly, the deaths that occurred at fiscal year-end (June 2021) 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.

# Fund Facts

## **State Investment Board**

2-22-2021

The Sovereign Wealth Fund (SWF) Institute assigned the highest Transparency Index rating of 10 to the North Dakota Legacy Fund. The Alaska Permanent Fund is the only other US SWF with a Transparency Index rating of 10.

3-8-2021

During the last 5-years, Legacy Fund earned a net annualized return of 9.25%, exceeding the policy benchmark of 8.6%.

3-15-2021

State Investment Board clients earned \$4.2 billion of net investment income in the two years ended December 31, 2020; including the Legacy Fund which earned \$1.9 billion with returns in excess of 18% in 2019 and 12% in 2020.

3-22-2021

The State Investment Board generated \$6.1 billion of net investment income for our clients in the five years ended December 31, 2020, including \$2.5 billion for Legacy Fund.

4-6-2021

The SIB, under NDCC 21-10-06, is allowed to provide investment services to and manage the money of any agency, institution, or political subdivision of the state, subject to agreement with the industrial commission. The SIB regularly accepts new investment clients and currently manages the investments of 27 clients.

## **Teachers' Fund for Retirement**

2-22-2021

TFFR Provides retirement benefit payment options to our members that offer varying levels of protection for their named beneficiaries.

3-8-2021

The TFFR plan offers disability benefits to its members. If a TFFR member becomes disabled while employed in a TFFR covered position, they may be entitled to a monthly disability retirement benefit.

3-15-2021

As a public pension, TFFR accounts do not provide any loan features. State law does not permit members to borrow from or pledge their account value as collateral on a loan.

3-22-2021

Current Member and Employer Contribution rates will decrease once the TFFR funded ratio reaches 100% (based on actuarial assets). The most recent actuarial valuation projects TFFR will reach fully funded status by 2048.

3-29-2021

Dual members of both TFFR and PERS plans have the opportunity to use their years of North Dakota public employment toward vesting and retirement eligibility for their Teacher's Fund for Retirement benefits.

4-12-2021

The goal of the TFFR Pension Administration System (PAS) moderation project is to upgrade or replace the current PAS system with a modern solution that will streamline business processes and functionality for our members and employers.

4-19-2021

The funding sources for TFFR are: employer contributions (23%), member contributions (23%), and investment income (54%).



**RISK MANAGEMENT FUND CONTRIBUTION  
DISCOUNT PROGRAM APPLICATION**  
STATE OF NORTH DAKOTA  
SFN 53424 (03-2019)

**SUBMISSION DEADLINE JUNE 30**  
Report of Activity for Current Fiscal Year  
(July 1 – June 30)

Agency/Institution:	% of Discount
1. Outline activities of your agency's Loss Control Committee has taken during the current fiscal year. <ul style="list-style-type: none"><li>• Provide a copy of all Loss Control Committee minutes or other documentation of agency review of incidents, accidents, or claims together with recommendations for any corrective actions.</li><li>• Loss Control Committees must meet at least annually.</li></ul>	2
2. Provide a copy of your agency's policy or written directive to staff that all incidents and accidents must be reported on-line to Risk Management within 24 hours. Provide documentation how this information is communicated to all staff annually.	1
3. Provide a copy of your agency's policy, procedure, written directive, or training records that demonstrate that all staff at least annually, and new employees at the time of hire, are provided copies/access to and are required to acknowledge they have read and understand agency policies addressing employment discrimination, including sexual and other forms of unlawful harassment, along with the process for resolving complaints, including requests for reasonable accommodations. <ul style="list-style-type: none"><li>• Describe and provide supporting documentation, how these requirements are communicated to all staff annually and how your agency is monitoring compliance.</li></ul>	3
4. Identify the primary risks that arise from your agency operations that gives rise to potential third party liability and explain what your agency does to address those risks.	2
5. Describe in detail the steps your agency takes to ensure records retention requirements are followed in the event an incident/claim could potentially give rise to a possible claim/lawsuit. What is the process your agency follows to implement litigation/destruction hold.	2
6. Provide a copy of your agency's policy, procedure, or written directive to staff outlining/explaining DOT State Fleet's Distracted Driving Policy along with any identified emergency operations that are exceptions your agency has implemented.	2
7. Provide a copy of your agency's policy, procedure, or written directive that ensures all staff use the available State cooperative contract when renting a motor vehicle out of state and purchasing optional liability and damage waiver coverage when the cooperative contract is not available. <ul style="list-style-type: none"><li>• Describe and provide supporting documentation on how this information is communicated.</li></ul>	3
<b>Total Potential Discount</b>	<b>15%</b>

**NOTE:**

- Documentation can be provided to Risk Management either electronically or by paper copy.
- Audits may be performed at the discretion of Risk Management by phone, mail, internet or on-site visit.

Signed	Date
--------	------

# MEMORANDUM

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

**FROM:** Sara Sauter, Supervisor of Internal Audit

**DATE:** May 20, 2021

**SUBJECT:** PAS System Update

The following summarizes the efforts of RIO agency staff to complete Phase 1 and initiate Phase 2 of the PAS project from February 2021 through the current date:

- All Phase 1 Deliverables have been accepted by Staff.
- Staff is coordinating with the Dept. of Commerce to adjust our agency and program logos consistent with the recommendations from the PAS consultant.
- The Cyber-Security and Business Model Assessments were presented to the TFFR Board at the March Board meeting. The interim and long term recommendations for these assessments were approved.
- NDIT, RIO staff, and Segal meet weekly to discuss PAS project status.
- Phase 2 of the PAS project (vendor RFP development) began in March, 2021. Over 30 meetings between staff, Segal, IT, and procurement have occurred for the development of the vendor RFP.
- The project management team set a tentative goal of June 2021 to issue the vendor RFP and receive the RFPs back for scoring by mid to late July 2021.

**INFORMATION ONLY. No board requested.**





# North Dakota Teachers' Fund for Retirement (TFFR) Segal – Board Update

March 25, 2021

# Agenda

- Segal – Our Project Team
- Segal – Company, ATC Practice, and Client Experience
- Scope of the Project
- Timeline for the Project
- Stage 1 Complete – Highlight / Summarize Four (4) Key Deliverables
  - 10-Key Assessment (Update at January Board Meeting)
  - Cybersecurity Assessment (Separate agenda item)
  - Current Business Model
  - New Business Model
- Stage 2 Underway
- Questions



# Who is Segal? – Our Project Team



William R. Morrow  
Senior Consultant, Denver  
**Project Role: Project Director**



Christopher L. Fikes  
Senior Consultant, Chicago  
**Project Role: Project Manager / Senior Consultant (Business)**



Miriann Yoo  
Vice President and Senior Consultant, New York  
**Project Role: Senior Consultant (Business)**



Jay Preall  
Senior Consultant, Chicago  
**Project Role: Senior Consultant (Technical)**



Jeff Mills  
Vice President, Senior Consultant, Chicago



Catharine Hamrick  
Vice President, Communications (Segal Benz)  
**Project Role: 10 Keys Assessment**

# Who is Segal? – As a Company



Our teams help a wide range of industries. No matter who you are, we can assist you with:

Administration and  
Technology Consulting

Benefit Audit Solutions

Compliance

Health and Welfare  
Benefits

HR and Benefits  
Technology

Insurance

Organizational  
Effectiveness

Performance and  
Rewards

Retirement Benefits

Benefits Communication  
Communication Strategy

Personalized Benefit  
Statements

Surveys and Focus Groups  
Website and Portal Design

Advisor Solutions for  
Financial Intermediaries

Corporate Governance  
and Proxy Voting

Defined Contribution  
Consulting

Discretionary Consulting

Investment Solutions

Traditional Consulting

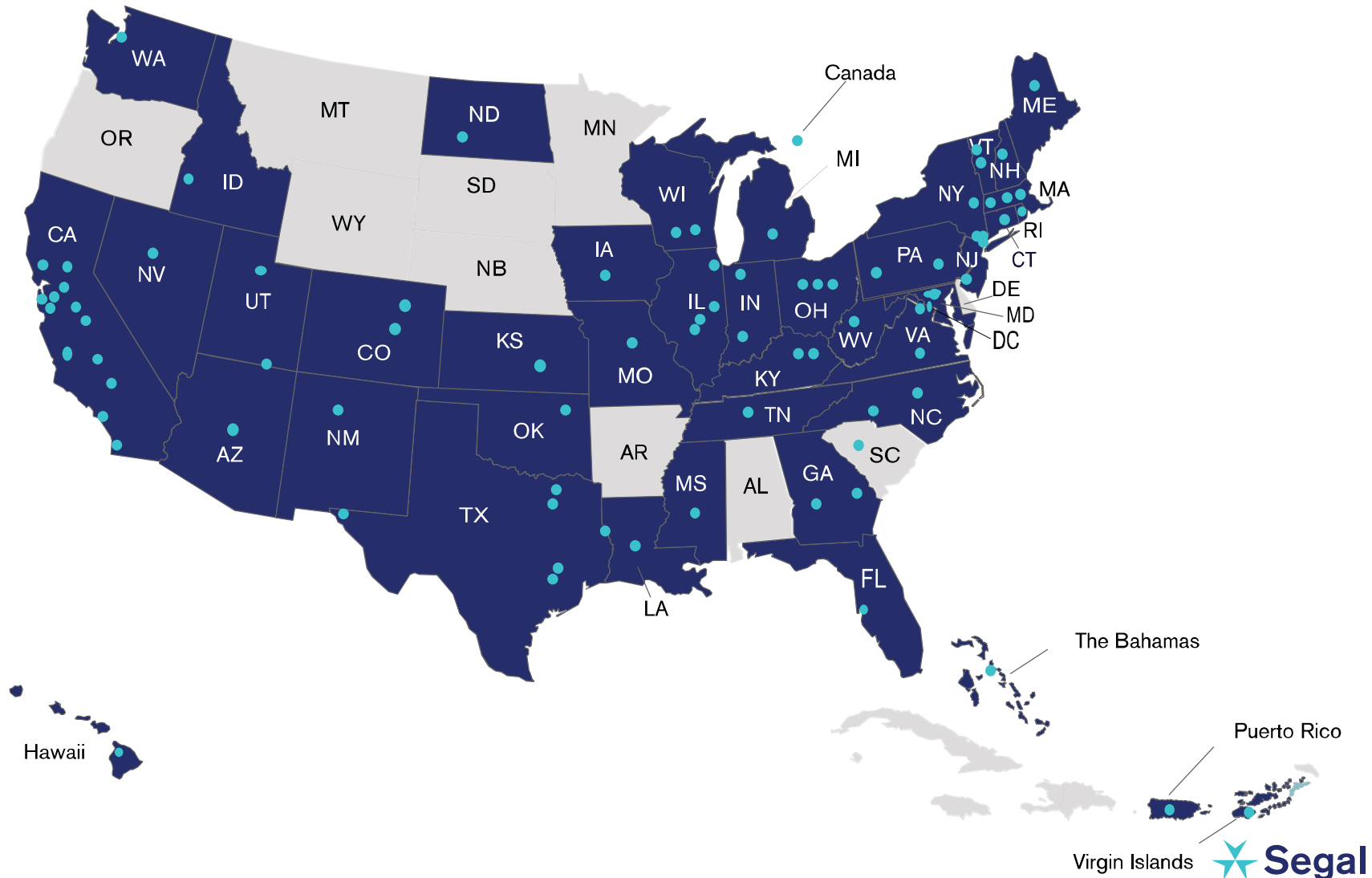


**Not any solution—your solution. Personalized advice and help.**

# Who is Segal? –

## Administration and Technology Consulting (ATC)

### Our Public Sector Retirement System Clients





# Scope of the Project

There are currently two (2) stages as part of the existing Segal contracted services with NDRIO:

- Stage 1 – Business process re-engineering study
- Stage 2 – Assistance with the Procurement

Upon Pension Administration System vendor selection, NDRIO will proceed with an additional stage for the project:

- Stage 3 – Assistance with Implementation of the awarded system

# Stage 1 Business process re-engineering study

## **Task 1 and 2: Project Initiation / Planning**

*Deliverables: Project Kickoff and Project Workplan*

## **Task 3: Evaluate Current Business Model**

*Deliverable: Current Business Model Report*

## **Task 4: Document New Business Model**

*Deliverables: Commercial Pension Solution Demonstrations, New Business Model Report*

## **Task 5: 10-Key Assessment**

*Deliverables: 10-Key Assessment Report and Communication Strategy Workshop / Presentation*

## **Task 6: Cyber Security Assessment**

*Deliverables: Cyber Security Assessment Report and Risk Register*

# Stage 2 – Assistance with the Procurement

## **Task 1: Plan the Procurement Stage**

*Deliverables: RFP Outline and Project Scheduling*

## **Task 2: Develop PAS RFP**

*Deliverables: Functional / Technical / Service Requirements; Assistance / Guidance with other RFP content, attachments, supporting material, etc. Review / Issuance of RFP.*

## **Task 3: Provide Vendor Selection Services**

*Deliverables: Assistance with procurement process, proposal review, evaluation process, vendor selection and contract negotiation*



# Stage 3 – Assistance with Implementation

## **Future / Optional Contract Item:**

- Segal included 48 tasks in our Proposal
- Condensed those tasks into these 10 categories for quick summary of services:
  1. Monitor the Detailed Project Schedule and Activities
  2. Conduct Regular Project Monitoring
  3. Monitor Potential Project Risks
  4. Monitor Selected PAS Vendor Contracted Activities
  5. Develop and Monitor Project Quality Standard Compliance
  6. Oversight of Objectives for each Project Lifecycle Stage
  7. Work with NDRIO to Develop a Business Process Re-engineering (BPR), Organizational Change Management (OCM), and Scope Change Plans
  8. Work with NDRIO to Develop a Training Management Plan
  9. Provide Data Consultant Oversight Services
  10. Overall Project Management

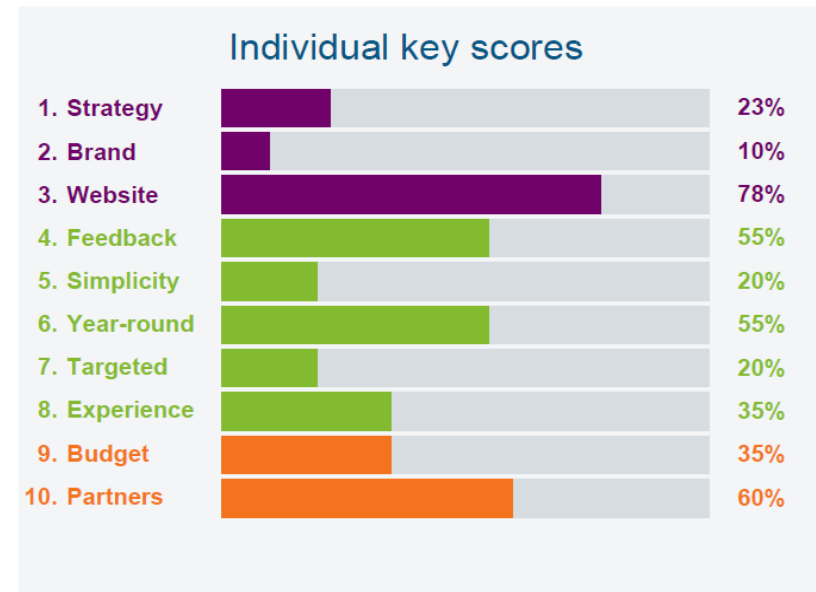
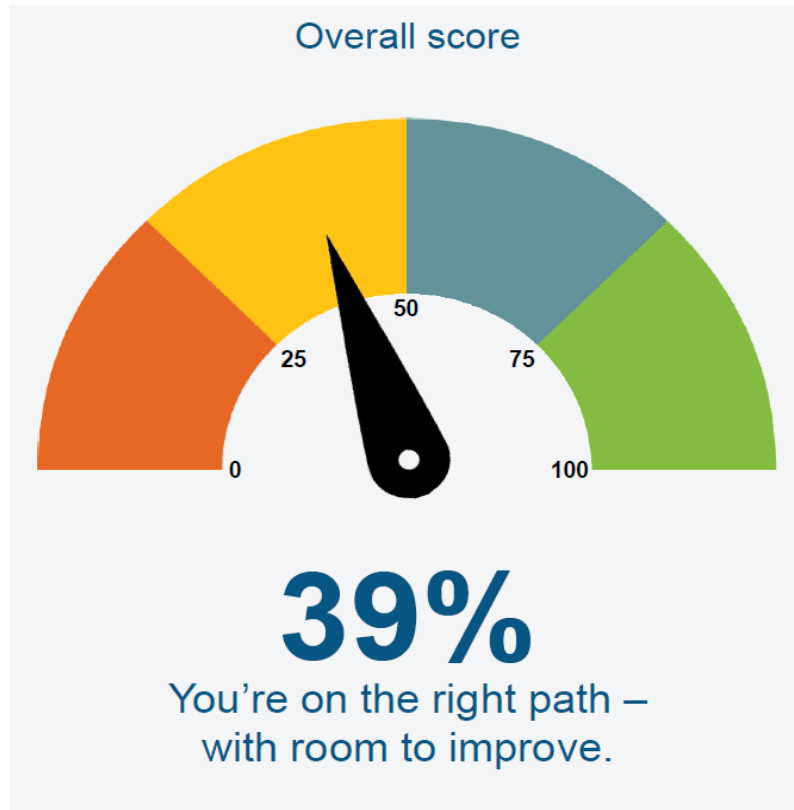
# Timeline of the Project

- Stage 1 – Business process re-engineering study
  - Approximately 4 Months; conducted and completed from Nov-2020 thru Feb/Mar-2021
- Stage 2 – Assistance with the Procurement
  - Approximately 7 Months; currently underway from Mar-2021 thru Sep-2021
- Stage 3 – Assistance with Implementation
  - Usually ranges from 28 to 42 Months
  - October 2021 until TBD

# Stage 1 Complete – Highlight Key Deliverables

- 10-Key Assessment (Presented at January-2021 Board Meeting)
- Cybersecurity Assessment (Separate agenda item during March 25<sup>th</sup> Board Meeting today)
- Current Business Model
- New Business Model

# 10-Key Assessment – Summary



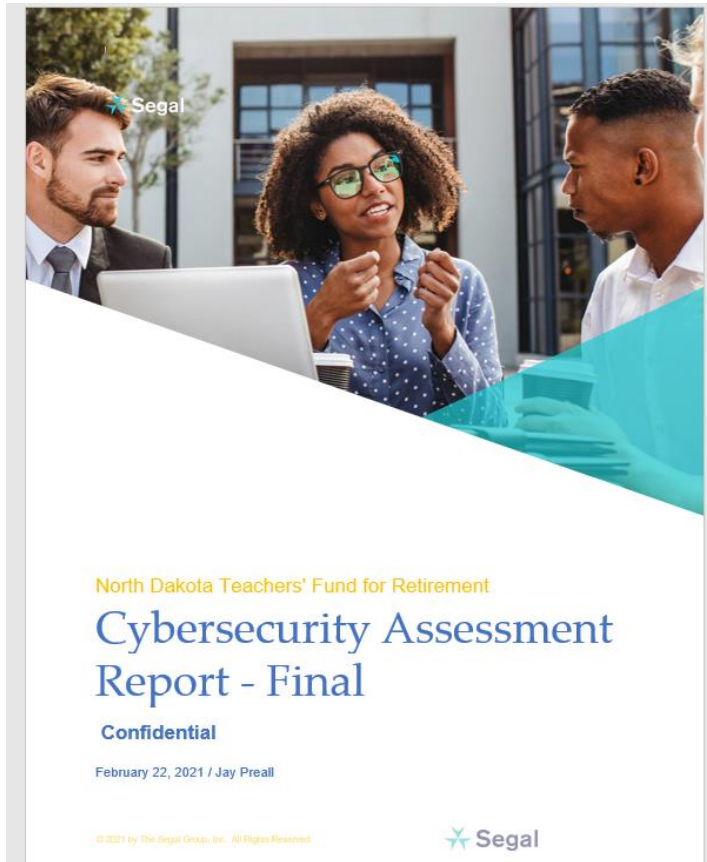
4 January 2021

Benz Communications Confidential—Do not distribute

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- ❖ Recap of high-level scoring as information was presented during January Board Meeting.

# Cybersecurity Assessment



- ❖ This item will be presented as a separate agenda item at today's (March 25<sup>th</sup>) Board Meeting.

# Current Business Model - Approach



1

Schedule  
Interviews



2

Conduct Business  
Process Interviews



3

Conduct  
Technology  
Interviews



4

Document Current  
Environment



5

Recommend  
Improvements



6

Prioritize  
Recommendations



7

Deliver  
Current Business  
Model Report

# Current Business Model – Summarized Issues

Approximately 200 issues were shared by NDRIO with Segal during sixteen (16) interview sessions. These items were then grouped into the following broad categories:

- Product / Solution Issues (74%)
- Technical Issues (4%)
- Business / Operational Issues (22%)

# Current Business Model - Recommendations

1. Acquire a **new PAS solution** with more built-in standard functionality
2. **Enhance self-service** (i.e., portal) with mobile device compatibility, improved functionality and access to real time quality data, ability to update personal information, and estimate retirement benefits
3. **Integration** between document imaging (electronic document processing), the pension administration system and internal workflows
4. Improve **correspondence** and **reporting** capabilities with real-time data updates as well as “point in time” reporting
5. Well documented and up-to-date **business procedures** and **training manuals**.



# Current Business Model - Recommendations

6. Enhanced **contact management** capabilities within the PAS, including scheduling, calls and correspondence
7. Modernize to **new technology** (i.e., internet browser-based solution, browser agnostic) with system performance / response times meeting industry standards
8. Simplified, **more efficient business processes** to better support all aspects of the administration
9. Better **accounting / audit controls**

Note: All of these recommendations are mid-term to long-term efforts in duration and thus will be included in the RFP / Procurement as requirements and a part of the new solution Implementation.

# Current Business Model – “Interim” Recommendations

- Work with Contributing Employers - requirements, format, accuracy, timeliness of reporting, etc.
- Identify governing policies, rules, statutes, etc., that directly affect NDRIO operations and evaluate the potential for changes.
- Update and/or create operational procedure manuals.
- Inventory all system output needs (i.e., correspondence, forms, reports, batch jobs, interfaces, etc.)
- Develop and publish processing schedules / calendars.
- Evaluate and implement process improvements for various business processes:
  - Presumptive Process
  - Dual Members
  - Death Processing
  - Imaging / Correspondence Tracking / Bar-Coding
- Address recommendations from the 10-Key Assessment
- Address recommendations from the Cybersecurity / Risk Assessment

# New Business Model - Approach



To assist in the development of the New Business Model, Segal facilitated ten (10) system vendor demonstrations, on a pre-procurement basis.

This activity was conducted under strict guidance and supervision from the ND State Procurement Office, following their advice and rules for such demonstrations.

# New Business Model – Vendor Demonstrations

Date	Time	Vendor
Monday 12/7	9am to 11am	Sagitec
Tuesday 12/8	9am to 11am	PensionSoft
Wednesday 12/9	1pm to 3pm	Avenu/CPAS
Monday 12/14	9am to 11am	Vitech
Monday 12/14	1pm to 3pm	JEA
Tuesday 12/15	1pm to 3pm	Procentia
Wednesday 12/16	9am to 11am	CBIZ
Wednesday 12/16	1pm to 3pm	Tegrit
Thursday 12/17	1pm to 3pm	Morneau Shepell
Friday 12/18	9am to 11am	LRS

# New Business Model – 6 Key Items

## Vendor / Core-Solution / Product Support

- Proven and experienced company
- Highly configurable solution with hosting options
- Fully functioning / integrated solution
- Ongoing support with automated upgrades



## Pension Administration / Workflow / Tracking

- Automated support for all pension functions and processes
- Built-in workflow automation and controls
- Digital communications, branded content and integration to Office 365
- Complete participant tracking and contact management



## Technical Items / General Features

- State of the art technology and security
- Browser agnostic and device responsive
- Online system manuals and training documents
- Integrated regression testing



## Member Portal

- Secure portal with strong authentication
- Automated self-service decision support tools
- Intuitive navigation and real-time messaging
- Outreach and educational campaigns



## Accounting / Actuary / Audit / Reporting

- General Ledger integration and GASB standards
- Full audit history that is searchable and reportable
- Data analytics and reporting
- Supports complex deductions and tax payments



## Employer Portal

- Robust self-service and report submission options
- Transaction validation and ability to save / resume processing
- Two-way messaging with user-alerts and reminders
- Support of multiple contribution payment methods

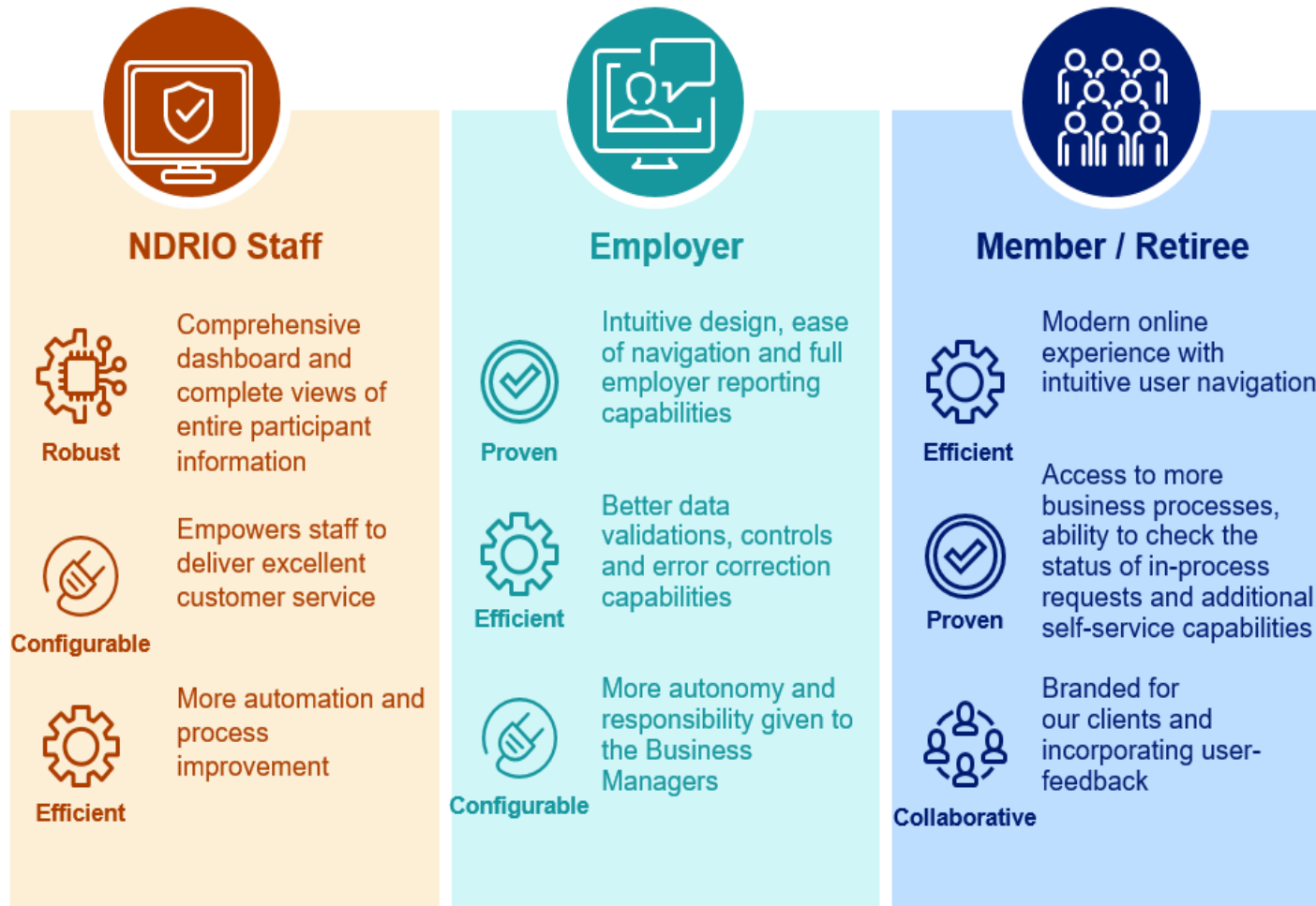


**New  
Business  
Model**

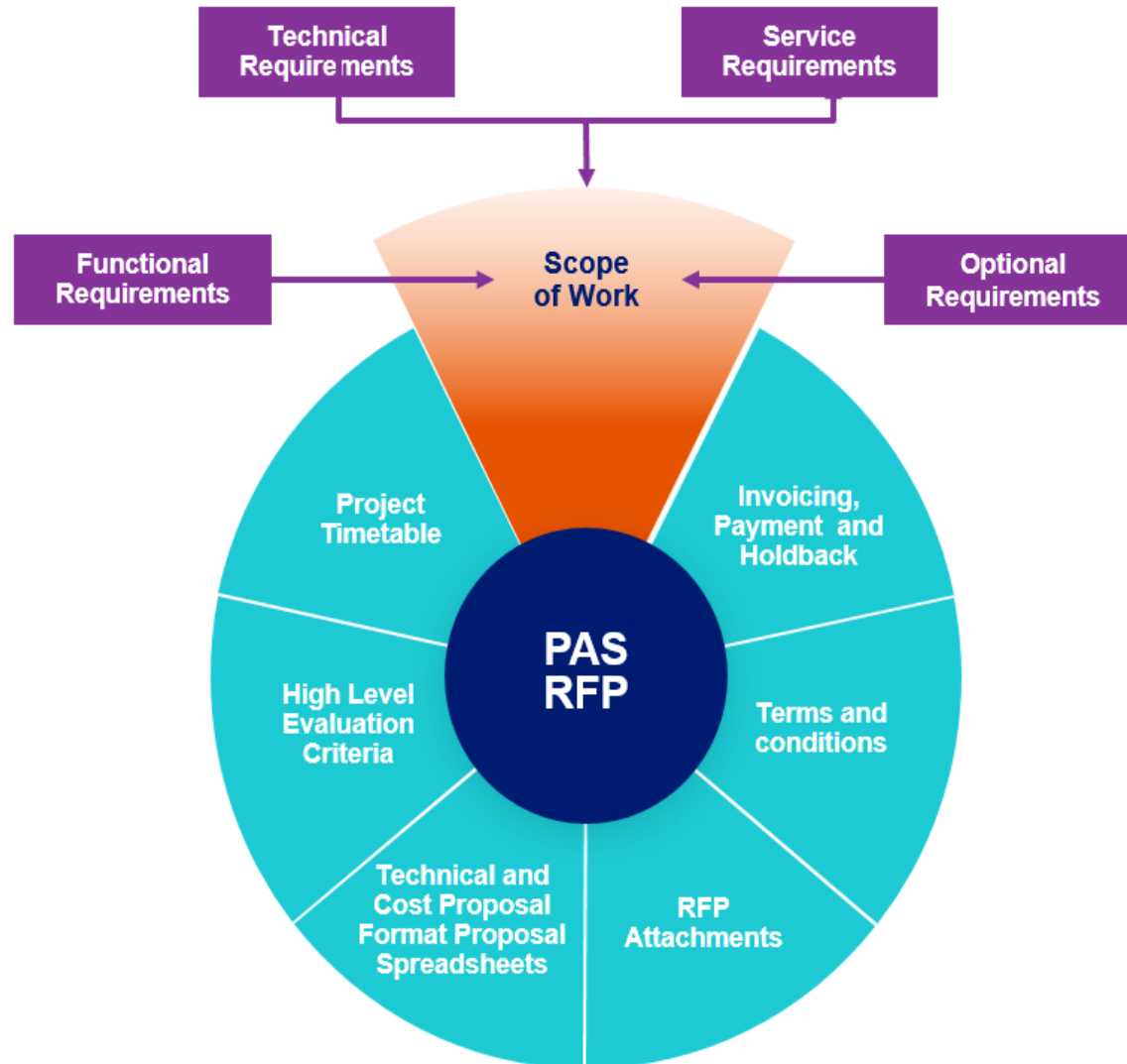
# New Business Model – Pension Administration System (PAS) and Peripheral Solutions



# New Business Model – User Interface and Web Portals



# Stage 2 Assistance with the Procurement – RFP Development is Underway









# PAS PROJECT INTERIM RECOMMENDATIONS

RIO AGENCY RESPONSE

# IDENTIFY THE NEED

What is the Need?

- Preparation for implementation of PAS.

Who does this affect?

- Agency, Employers, Members.

Why should this need be addressed?

- Supports Fiduciary Duty of Prudence.

How will I know this need has been met?

- Positive Staff & Stakeholder Engagement; Improved Efficiency; Reduced Cost.



# BACKGROUND INFORMATION

- Consultant evaluated Current & Future Business Model.
  - Consultant issued Interim Recommendations to facilitate Transition.
  - Staff discussed each recommendation and timeline for action.
- 
- 

# WORKABLE SOLUTIONS

\* Additional Recommendations from  
Cybersecurity & Communications  
Assessments.

## Governance

- ID Statutes, Rules, & Board Policy that affect operations.
- Ex: Technical Corrections; Authority location.
- Requires adherence to timelines.
- March 2022 - EBPC.

## Administration

- Collaborate w/ Employers.
- Update/Create Process Manuals.
- Inventory Output.
- Develop/Publish Process Schedules.
- Evaluate/Implement Process Improvements.

## Fund Policy

- Review Statutes, Rules, & Board Policies that affect underlying Policy decisions.
- Ex: Return to Teach.
- Requires stakeholder engagement, and consultant/actuary evaluation.



# DISCUSSIONS FOR CHANGE

## Governance

- Initiated by Staff.
- Reviewed/Approved by Board.

## Administration

- Initiated by Staff.

## Fund Policy

- Initiated by Board.
- Facilitated by Staff.
- Reviewed/Approved by Board.

# FINAL RESULT

January 2021 to December 2021

PAS: Stage 1 & 2 Completed

Law, Policy, Process Reviewed & Changes Proposed.  
Employers Engaged.



January 2022 to December 2022

PAS: Stage 3 Initiated

Changes to Law finalized.  
Members & Employers Engaged.



January 2023 to December 2023

PAS: Stage 3 Completed

2023 Session: Statutory Changes & Admin Rules Amended.  
Successful implementation across Members, Employers, and Agency.



# North Dakota Teachers' Fund for Retirement (TFFR) Cybersecurity Assessment Results

February 25, 2021



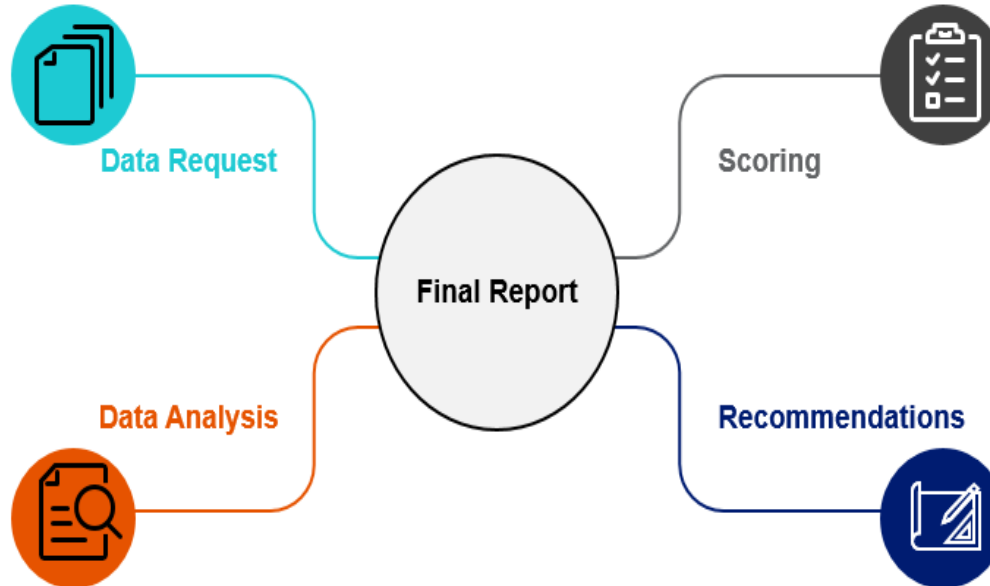
# Assessment Approach

## Important Point!

The assessment focused specifically on NDRIO and did not include assessing NDIR and its support of the local office.

83 Artifacts (i.e., various documents, procedures, protocols, etc.) were requested for review, ranging from an Acceptable Use Policy to Vulnerability Scan Tooling Names

Artifacts were scored based on weighted criteria from the best practices



Artifacts were compared against more than 1,200 best practices

Recommendations were made to address the most impactful areas

# How Scores Were Determined

Artifact Risk Value	Description	Number of Points Scored
Not Provided	The artifact was not provided for the assessment because it was not available or does not exist.	0
Very High Risk	The artifact was provided but was found to be very highly deficient in what is reasonably expected for such an item.	1
High Risk	The artifact was provided but was found to be lacking in many requirements reasonably expected for such an item.	2
Medium Risk	The artifact was provided but was found to be lacking in some minor requirements reasonably expected for such an item.	3
Low Risk	The artifact was provided and was found to meet the requirements for what is reasonably expected for such an item.	4
Not Applicable	The artifact was not applicable for this assessment. For TFFR, this applied to many artifacts controlled by the State IT.	4

- Each artifact was compared to best practices and scored according to the table shown here.
- NDRIO was not able to provide 39 of the 83 requested artifacts, such as Malicious Code Reports and an Incident Response Plan.
- NDRIO received 28 '*Not Applicable*' scores due to NDIT providing certain services for you, such as a Network Monitoring Policy.

## Important Point!

When scoring various artifacts, best practices are also 'weighted' when measuring their impact to the overall risk. For example, for asset management activities, it is more important to at least have a list of assets than it is to have a policy identifying who is authorized to add new assets into the environment.

# Cybersecurity Assessment Result

- NDRIO scored **51.17 out of 100** total possible points equating to a **HIGH** risk for a cybersecurity incident to occur.
- To put the NDRIO score into perspective, first time assessment scores Segal has typically seen fall in the '*below 30 out of 100*' range, with organizations then making changes over several months to raise their scores into the '*70+*' range.
- It should be noted that '*audit results*' score higher than '*written policies*' and a written policy scores higher than having no documented policy at all.

	Top Possible Score	Your Assessment Score	Your Risk Rating for this Area
<b>Overall Risk</b>	<b>100.00</b>	<b>51.17</b>	<b>High</b>
<b>Identify</b>	<b>10.00</b>	<b>2.45</b>	<b>Very High</b>
Asset Management	3.00	0.62	Very High
Business Environment	1.50	0.38	Very High
Governance	1.50	0.32	Very High
Risk Assessment	1.00	0.04	Very High
Risk Management	0.50	0.13	Very High
Supply Chain Risk Management	2.50	0.97	Very High
<b>Protect</b>	<b>40.00</b>	<b>17.83</b>	<b>Very High</b>
Identity Management, Authentication and Access Control	10.00	6.05	High
Awareness and Training	2.00	0.10	Very High
Data Security	10.00	1.43	Very High
Information Protection Processes and Procedures	8.00	4.51	High
Maintenance	2.00	1.00	High
Protective Technology	8.00	4.75	High
<b>Detect</b>	<b>35.00</b>	<b>30.53</b>	<b>Low</b>
Anomalies and Events	5.25	3.05	High
Security Continuous Monitoring	24.50	22.49	Low
Detection Processes	5.25	4.99	Low
<b>Respond</b>	<b>10.00</b>	<b>0.32</b>	<b>Very High</b>
Response Planning	1.50	0.04	Very High
Communications	1.50	0.04	Very High
Analysis	1.50	0.24	Very High
Mitigation	5.00	0.00	Very High
Improvements	0.50	0.00	Very High
<b>Recover</b>	<b>5.00</b>	<b>0.05</b>	<b>Very High</b>
Recovery Planning	3.75	0.00	Very High
Improvements	0.75	0.03	Very High
Communications	0.50	0.02	Very High

# Example Detailed Scoring

- Subcategory ID.GV-4 is from the NIST Cybersecurity Framework used for this assessment and addresses the documented governance policies for the organization.
- In this case, because NDRIO did not provide a documented Data Protection Policy, the risk is **Very High** that someone could easily and unknowingly perform an action that would lead to a cybersecurity incident.

Subcategory ID.GV-4: Governance and risk management processes address cybersecurity risks			
Item Reviewed	Current Profile	Target Profile	Current Cyber Security Risk
Data Protection Policy	Not Provided.	Create a Data Protection Policy that includes such items as a statement restricting physical access to workstations to only authorized personnel, a statement prohibiting the use of unknown networks when traveling, such as unverified or open airline, hotel or restaurant networks, and a statement that user workstations should automatically lock the screen after a set period of time of inactivity.	Very High

# Top 10 Improvement Opportunities

Artifact	Your Actual Score
Incident Response Plan	0.00
Data Encryption Tooling and Procedures	0.00
Incident Response Plan Test Results	0.00
Asset Management and Disposal	68.00
Business Partner Agreement Example	82.00
Access Control Policy	0.00
Network Architecture Diagrams	10.00
Security Training Curriculum	0.00
Incident Response Run Books	0.00
Disaster Recovery Plan	44.00

- The items shown here have the greatest impact on improving your assessment score. The top score for each area is 100.
- It is recommended to address the items where the NDRIO score was 0.00 first.
- The goal is to both document the area and put it into practice at NDRIO. For example, when addressing the Incident Response Plan, it should both be written and *practiced on a regular basis*.

# Recommendations

## 1 Collaborate

The local IT Team should become more involved with NDIT in regards to testing incident responses and disaster recovery at a 'big system' level.

## 2 Localize

The NDRIO office should create localized versions of the State governance policies and train staff on them.

## 3 Create

Write **and test** local versions of an Incident Response Plan, a Business Continuity Plan, and a Disaster Recovery Plan for office specific considerations.

## 4 Encrypt

Ensure all data is encrypted so even if a breach does occur, the data is worthless to a hacker.

## 5 Eliminate

Eliminate the use of removable media, such as USB drives, writable DVD players, etc. Users could unknowingly install malware with a compromised USB drive, lose a USB drive that contains confidential data, or deliberately load data onto a removable device for malicious purposes.



# ND TFFR CYBERSECURITY ASSESSMENT

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RISK MITIGATION PLAN



# OVERVIEW OF CYBERSECURITY ASSESSMENT

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- Completed by Segal as part of the Pension Administration System project
- Focuses on ND Teachers Fund for Retirement (TFFR) **only** and **not** the State (NDIT)
- Objectives of this cybersecurity assessment
  - Identify potential threats
  - Identify internal and external controls to help mitigate and transfer risk
  - Determine probability/outcomes of vulnerabilities exploited by internal/external actors
  - Provide TFFR with cost-effective and actionable recommendations for improvement

# TFFR AREAS OF RISK

## TOP 10 WEIGHTED ITEMS AND SCORES

TFFR Control	Score
Incident Response Plan	0.00
Data Encryption Tooling and Procedures	0.00
Incident Response Plan Test Results	0.00
Asset Management and Disposal	68.00
Business Partner Agreement Example	82.00
Access Control Policy	0.00
Network Architecture Diagrams	10.00
Security Training Curriculum	0.00
Incident Response Run Books	0.00
Disaster Recovery Plan	44.00

TFFR Control	Score	Reason	Planned Mitigation
Incident Response Plan	0.00	TFFR does not have a local Incident Response Plan in place	<ul style="list-style-type: none"><li>• Identify critical resources, personnel and software that may be impacted by incident</li><li>• Identify actions to be taken with step-by step procedures</li><li>• Identify roles and responsibilities before, during and after an incident</li></ul>
Data Encryption Tooling and Procedures	0.00	TFFR does not have a local policy stating use of encryption or procedures to implement and test to verify all data is encrypted	<ul style="list-style-type: none"><li>• Utilize tooling to encrypt all devices, data in transit and PII or PHI</li><li>• Encrypt Emails</li></ul>
Incident Response Plan Test Results	0.00	TFFR does not have a local Incident Response Plan to test. TFFR will need to create a plan, test and document results	<ul style="list-style-type: none"><li>• Test the plan and document results (test on regular basis)</li><li>• Review the results to ensure roles and responsibilities are clear</li><li>• Document lessons learned</li></ul>



TFFR Control	Score	Reason	Planned Mitigation
Access Control Policy	0.00	TFFR does not have a local policy for stating access control measures for systems, authentication processes, building access and user actions	<ul style="list-style-type: none"><li>• Require all systems to have authentication process; provide users with least functionality required for roles and responsibilities</li><li>• Documented processes for access to building, systems, how/when users can delegate access authority; state user actions can and will be tracked for system access</li></ul>
Security Training Curriculum	0.00	TFFR does not have a local policy stating security training with cybersecurity topics to safeguard data and the business. Examples: computer viruses, ransomware, email use, SPAM, encryption and attachments	<ul style="list-style-type: none"><li>• Include topics: computer viruses, password management, email use, encryption, attachments</li><li>• Include statement regarding NDIT provides training</li></ul>
Incident Response Run Books	0.00	TFFR does not have local Incident Response Run Book to document procedures or how to handle incidents of potential risk	<ul style="list-style-type: none"><li>• Record each risk and document procedures for how to handle incident</li><li>• Complete table top exercises, document lessons learned and update as needed</li></ul>



# BRIEF Q & A SESSION

## QUESTIONS?

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- Please feel free to ask any questions you may have
- Thank you for your time today



# MEMORANDUM

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

**FROM:** Sara Sauter, Supervisor of Internal Audit

**DATE:** May 20, 2021

**SUBJECT:** 2021 - 2022 SIB Audit Committee Meeting Schedule

Included is the proposed schedule for the 2021-2022 SIB Audit Committee meeting dates. The SIB Audit Committee (per the charter) will generally meet four times a year with the authority to convene additional meetings as needed. The following items are time sensitive and do require action by the SIB Audit Committee and the SIB:

- The RIO Financial Audit Report for FY 2021 must be approved prior to November 19, 2021.
- The Executive Limitation Audit Report for CY 2021 must be approved prior to February 25, 2022.
- The RIO Financial Audit Scope and Approach for FY 2022 and the GASB 68 Schedules Audit Report must be approved prior to May 27, 2022.

The following is simply a proposed schedule and as long as the deadlines noted above are met, the SIB Audit Committee is welcome to hold their meetings on a date and time which suites their schedules.

## July

July 22, 2021 – TFFR @ 1:00 PM  
July 23, 2021 – SIB @ 8:30 AM

## August

August 11, 2021 – SIB Audit Committee @ 2:30 PM  
August 27, 2021 – SIB @ 8:30 AM (tentative)

## September

September 23, 2021 – TFFR @ 1:00 PM  
September 24, 2021 – SIB @ 8:30 AM

## October

October 22, 2021 – SIB @ 8:30 AM

## November

November 16, 2021 – SIB Audit Committee @ 2:30 PM  
November 18, 2021 – TFFR @ 1:00 PM  
November 19, 2021 – SIB @ 8:30 AM

## January

January 27, 2022 – TFFR @ 1:00 PM  
January 28, 2022 – SIB @ 8:30 AM

## February

February 16, 2022 – SIB Audit Committee @ 2:30PM  
February 25, 2022 – SIB @ 8:30 AM

## March

March 24, 2022 – TFFR @ 1:00 PM  
March 25, 2022 – SIB @ 8:30 AM (tentative)

## April

April 21, 2022 – TFFR @ 1:00 PM  
April 22, 2022 – SIB @ 8:30 AM

## May

May 11, 2022 – SIB Audit Committee @ 2:30 PM  
May 27, 2022 – SIB @ 8:30 AM

# MEMORANDUM

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

**FROM:** Sara Sauter, Supervisor of Internal Audit

**DATE:** May 20, 2021

**SUBJECT:** 2021 - 2022 Audit Committee Membership

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

The committee is comprised of five members selected by the SIB. Three members of the Committee will represent the three groups of the SIB (Teachers' Fund for Retirement (TFFR), Public Employees Retirement System (PERS), and elected and appointed officials). The other two members are to be selected from outside the SIB with strong either strong financial, risk, and/or auditing experience. Membership on the Committee will be for a term of one year or termination of term on the SIB. There is no limit to the number of terms that can be served on the Committee.

Each July, as a new fiscal year gets underway, the SIB is required to review and approve appointments to the SIB Audit Committee. As current members of the SIB Audit Committee your service is greatly appreciated.

**Please notify the Supervisor of Internal Audit, Sara Sauter, by Thursday, May 27, 2021 if you are willing to continue to serve on the SIB Audit Committee through the end of the next fiscal year (July 1, 2021 to June 30, 2022). The Supervisor of Internal Audit can be reached via phone at 1.800.952.2970 or 701.328.9896 or via email at [sasauter@nd.gov](mailto:sasauter@nd.gov).**