

AUDIT COMMITTEE MEETING

Wednesday, February 16, 2022 – 2:30 PM
Workforce Safety & Insurance Conference Room
1600 E Century Ave Suite 1, Bismarck, ND 58503

AGENDA

- I. Call to Order and Approval of Agenda – Chair (committee action) (5 minutes)
- II. Approval of November 16, 2021 Minutes – Chair (committee action) (5 minutes)
- III. Audit Planning Cycle – Sara Sauter (education) (20 minutes)
- IV. Executive Limitations/Staff Relations – Jan Murtha (informational) (20 minutes)
- V. 2021-2022 Second Quarter Audit Activities – Sara Sauter (committee action) (20 minutes)
 - a. Succession Planning – Phase I
- VI. Executive Limitations Audit – Sara Sauter (committee action) (20 minutes)
- VII. Current Internal Audit Activities – Sara Sauter (committee action) (30 minutes)
 - a. Tracking Document
- VIII. Other – Next SIB Audit Committee Meeting
Workforce Safety & Insurance Conference Room
1600 E Century Ave Suite 1, Bismarck, ND 58503
Wednesday, May 11, 2022 @ 2:30 PM
- IX. Adjournment

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

**STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
NOVEMBER 16, 2021, MEETING**

MEMBERS PRESENT: Yvonne Smith, PERS Board, Chair
Dr. Rob Lech, TFFR Board, Vice Chair
Thomas Beadle, State Treasurer
Julie Dahle, External Representative

MEMBER ABSENT: Jon Griffin, External Representative

STAFF PRESENT: Connie Flanagan, Chief Financial Officer
Jayme Heick, Retirement Programs Specialist
Missy Kopp, Executive Assistant
Jan Murtha, Interim Exec Dir
Ann Nagel, Investment Accountant
Sara Sauter, Suprv of Internal Audit
Dottie Thorsen, Internal Auditor
Denise Weeks, Retirement Program Manager

GUESTS : Dean DePountis, Attorney General's Office
Thomas Rey, CliftonLarsonAllen, LLP
Tonia Shultz, CliftonLarsonAllen, LLP

CALL TO ORDER:

Ms. Smith called the State Investment Board (SIB) Audit Committee meeting to order at 2:30 p.m. on Tuesday, November 16, 2021, at Workforce Safety & Insurance, 1600 E Century Ave., Bismarck, ND.

The following Audit Committee members were present representing a quorum; Treasurer Beadle, Ms. Dahle, Dr. Lech, and Ms. Smith

AGENDA:

The agenda was considered for the November 16, 2021, meeting.

IT WAS MOVED BY DR. LECH AND SECONDED BY TREASURER BEADLE AND CARRIED BY A VOICE VOTE TO APPROVE THE AGENDA FOR THE NOVEMBER 16, 2021, MEETING AS DISTRIBUTED.

AYES: MS. DAHLE, TREASURER BEADLE, DR. LECH, AND MS. SMITH

NAYS: NONE

MOTION CARRIED

ABSENT: MR. GRIFFIN

MINUTES:

IT WAS MOVED BY MS. DAHLE AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO ACCEPT THE AUGUST 11, 2021, AND OCTOBER 14, 2021, MINUTES AS DISTRIBUTED.

AYES: TREASURER BEADLE, MS. DAHLE, DR. LECH, AND MS. SMITH

NAYS: NONE

MOTION CARRIED

ABSENT: MR. GRIFFIN

FINANCIAL AUDIT OF RIO AND GASB 68 SCHEDULE AUDIT:

Mr. Thomas Rey and Ms. Tonia Schultz, CliftonLarsonAllen (CLA), reviewed the audit results of the Retirement and Investment Office (RIO) financial statements for the period ended June 30, 2021. CLA issued an unmodified “clean” opinion that the financial statements are presented fairly, in all material aspects, in conformity with U.S. Generally Accepted Accounting Principles (GAAP).

The GASB 68 Schedules of Employer Allocations and Pension Amounts by Employer was issued in November 2021.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY MS. DAHLE AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE FINANCIAL AUDIT REPORT OF RIO AND THE GASB 68 SCHEDULE AUDIT.

AYES: MS. DAHLE, DR. LECH, TREASURER BEADLE, AND MS. SMITH

NAYS: NONE

MOTION CARRIED

ABSENT: MR. GRIFFIN

COMMITTEE EDUCATION – FIDUCIARY RESPONSIBILITY:

Mr. DePountis provided education on fiduciary responsibility including a description of a fiduciary and the duties and responsibilities. Information was provided covering conflicts of interest, fiduciary liability, and steps to mitigate fiduciary risk.

EXECUTIVE LIMITATIONS/STAFF RELATIONS:

Ms. Murtha provided an update on the RIO facility move which will occur on November 23, 2021. A staff engagement survey was conducted in October and results were provided to the Committee. Ms. Murtha provided a summary of staffing changes that have occurred and the work happening to fill openings. Current procurement activities include the Pension Administration System (PAS) project which is in the pre-award, contract negotiation stage and an RFP for temporary assistance firms that can provide contract services for additional investment personnel.

FIRST QUARTER INTERNAL AUDIT ACTIVITIES:

Ms. Sauter reviewed first quarter Internal Audit (IA) activities report to the Audit Committee for the period of July 1, 2021, to September 30, 2021. IA facilitated the SIB Customer Satisfaction Survey in August and September 2021, and results were provided to the SIB.

Because the SIB separated the Executive Director (ED)/Chief Investment Officer (CIO) position, the supervisor of IA is reviewing the Executive Limitations Audit and will revise the audit program.

IA provided assistance to CLA for the GASB 68 Census Data Audit and the financial statement audit. Additional administrative time was required because one employer did not provide the requested information in a timely manner.

The Committee asked IA to develop a comprehensive onboarding process for new SIB members, to develop a plan for annual Board education, and establish a standing Governance and Policy Review Committee for the SIB. The draft report was reviewed at a special Committee meeting on October 14, 2021. The report was presented to the SIB at their October 22, 2021, meeting. The Board did not provide any feedback on the report.

The supervisor of IA assisted the SIB Executive Search Committee (ESC) with scoring the RFPs for the executive recruitment service and attended meetings of the ESC.

After the retirement/resignation of five staff members, RIO has reorganized the agency structure and job duties to better fit the current and future needs of the agency. IA reviewed and evaluated the responsibilities of three of the vacant

positions. The duties of each position were categorized and shared with RIO management to assign to the newly organized positions.

The Annual Participant Data/Salary Verification Review report on fiscal year 2018-19 was issued on May 11, 2021. IA had three recommendations in the report and has been working with Retirement Services on their response. The TFFR File Maintenance Audit fieldwork started in June 2021 and continued through August 2021. Due to the succession planning review, the fieldwork was suspended, and the audit has not been completed.

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IT WAS MOVED BY DR. LECH AND SECONDED BY TREASURER BEADLE AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE FIRST QUARTER INTERNAL AUDIT ACTIVITIES REPORT.

AYES: MS. DAHLE, TREASURER BEADLE, DR. LECH, AND MS. SMITH

NAYS: NONE

MOTION CARRIED

ABSENT: MR. GRIFFIN

CURRENT INTERNAL AUDIT ACTIVITIES:

Ms. Sauter reviewed current IA activities. On October 19-29, 2021, IA staff attended the virtual Public Pension Financial Forum (P2F2) which included members from the Association of Public Fund Auditors (APPFA), for education and training. IA staff attended an agency wide training which focused on using strengths and personality to communicate better within the agency. IA proposed the scopes for the upcoming Executive Limitations audit. On an annual basis, there is a review of the ED/CIO's compliance with the SIB Governance Manual Executive Limitations Policies A-1 through A-11. The audit will review calendar year 2021. During 2021, the ED/CIO position was split, and the Executive Limitations policy has not been updated to reflect this change.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY MS. DAHLE AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE CURRENT AUDIT ACTIVITIES REPORT AND ALLOW FLEXIBILITY FOR THE EXECUTIVE LIMITATIONS AUDIT.

AYES: DR. LECH, TREASURER BEADLE, MS. DAHLE, AND MS. SMITH

NAYS: NONE

MOTION CARRIED

ABSENT: MR. GRIFFIN

OTHER:

The next Audit Committee meeting is scheduled for Wednesday, February 16, at 2:30 p.m. at Workforce Safety & Insurance, 1600 East Century Ave., Bismarck, ND.

With no further business to come before the Audit Committee, Ms. Smith adjourned the meeting at 4:10 p.m.

Respectfully Submitted:

Ms. Yvonne Smith, Chair
SIB Audit Committee

Missy Kopp
Recorder

Audit Planning Cycle

Sara Sauter

Supervisor of Internal Audit

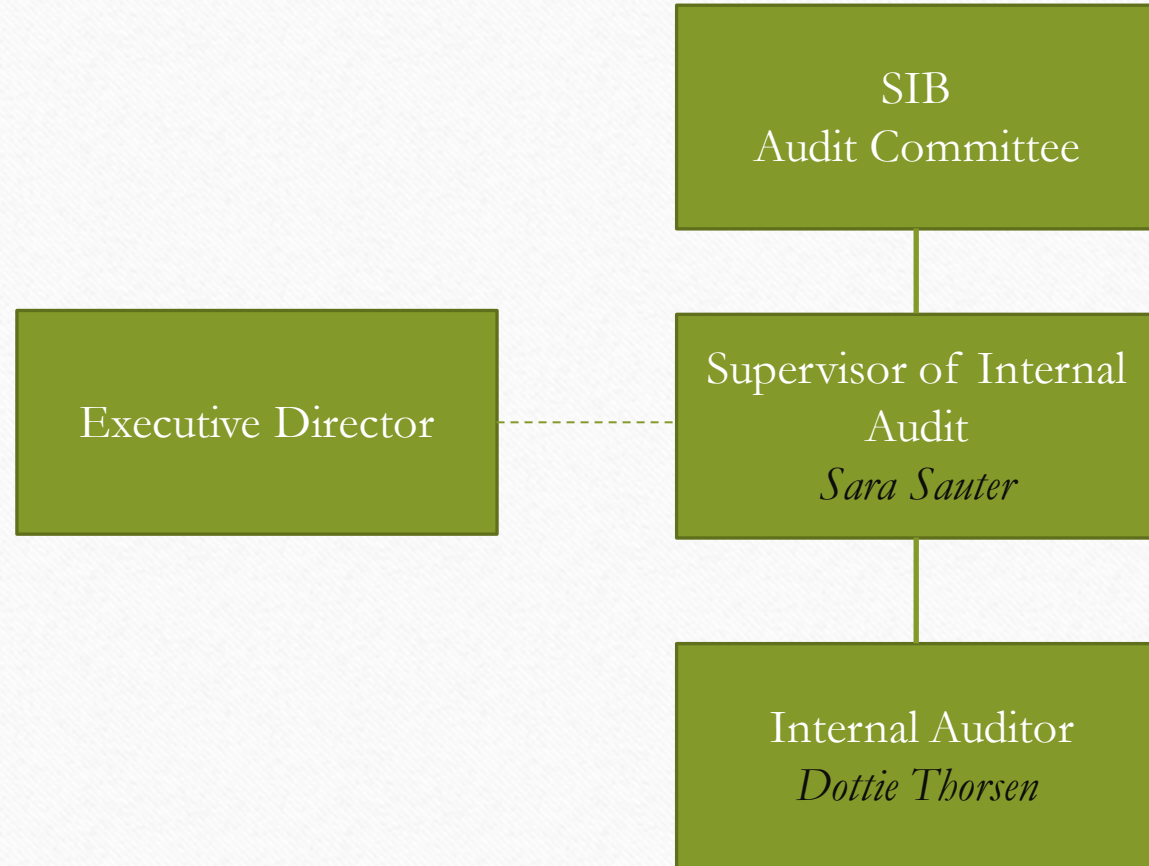
Education

Internal Audit Purpose

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

Internal Audit Structure at *RIO*

Reports administratively to Executive Director and functionally to the Audit Committee of the SIB



What is Internal Auditing?

Independent and
objective

Value-added

Improves Operations

Accomplishes
Objectives (e.g. Assess
Controls, Review
Processes, etc.)

Improves
Effectiveness and
Efficiencies

Partner with Divisions
to Find Solutions

The IIA
Core
Principles

Independent

Integrity

Communication

Risk-Based Assurance

Proactive & Future-Focused

Organization Alignment

Internal Audit Responsibilities

- Offer Insight and Advice
- Evaluate Risks
- Assess Controls
- Ensure Accuracy
- Improve Operations
- Promote Ethics
- Review Processes and Procedures
- Monitor Compliance
- Assure Safeguards
- Investigate Fraud

Accounting vs. Internal Auditing

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

Types of Auditors

External Auditors

- Hired by an organization
- Often financial statement
- Historical Data
- 25,000' view
- Produce a report with an opinion

Regulatory Auditors

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

Internal Auditors

- Work for the organization
- Risk-based audit plan
- Current Issues
- Variety of audits based on industry
- Report recommendations

Risk Based Internal Auditing

Institute of Internal Auditors defines risk based internal auditing (RBIA) as a methodology that **links internal auditing** to an organization's overall risk management framework. RBIA allows internal audit to provide assurance to the board that risk management processes are managing risks effectively, in relation to the risk appetite.



Internal Audit staff at RIO uses a risk-based internal auditing approach when it comes to audit planning.

Process



Understand the organization/programs



Identify, assess, and prioritize risks



Coordinate with other providers



Estimate resources



Propose the plan and solicit feedback



Finalize and communicate the plan

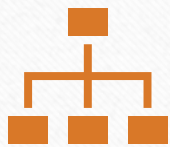


Assess risks continuously



Update the plan and communicate updates.

Understand, Identify & Prioritize



Mission of
Organization & Board



Legal & Regulatory
Requirements

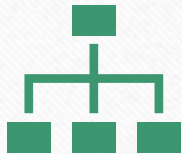


Change in
Management



Emerging Risks

Communicate, Estimate, & Finalize



**Discuss risks with Management,
Board, and External Auditors**



**Estimate the Time for Audits
and Other Requests**

Two Full-time Staff (Administrative, Leave,
Audits, Consulting, Etc.)



Formalize Plan

Present to Audit Committee for Approval

Continuous Monitoring and Adjusting



Fluid Plan



New Risks or Issues
Emerge Adjust Audit
Plan



Discuss with
Management



Communicate to the
Audit Committee

Joke of the Week



"It's safe to come out - the auditors have gone."

Questions?

Thank You!

MEMORANDUM

TO: State Investment Board Audit Committee
FROM: Jan Murtha, Executive Director
DATE: February 14, 2022
RE: Executive Limitations/Staff Relations

Ms. Murtha will provide a verbal update at the meeting on agency efforts to address current and future organizational risk through strategic planning. Updates will include the following topics:

1. **Facility Move:** RIO has successfully moved to its new location at the WSI Building. RIO is in the process of updating all communication methods to reflect both the new address and new branding logos previously developed by Dept. of Commerce.
2. **Staff Engagement:** As part of its commitment to team member professional development and in partnership with WSI, all RIO team members have or are scheduled to participate in Crucial Conversations training in 2022.
3. **Retirements/Resignations/FTE's/Temporary Assistance:**

Employee Title	Status
Executive Director	Filled 11/21
Chief Investment Officer	Filled 01/22
Deputy ED – Chief Retirement Officer	Anticipated posting week of 2/14/2022
Chief Risk Officer	Start date 1/31/22
Contracts/Records Admin	Filled 11/21
Retirement Program Admin	Filled 11/21
Front Desk Temp	Filled 10/21
Membership Specialist Temp	Started 10/18/21; reposted in 11/21 and 1/22. Interviews 2/22.
Employer Reporting Intern	Started 2/7/22
Investment #1	Authorized by HB 1506 in 2021 Legislative Special Session: staff is creating JDQ's
Investment #2	Authorized by HB 1506 in 2021 Legislative Special Session: staff is creating JDQ's
Investment #3	Authorized by HB 1506 in 2021 Legislative Special Session: staff is creating JDQ's
Investment #4	Authorized by HB 1506 in 2021 Legislative Special Session: staff is creating JDQ's
Accounting #1	Authorized by HB 1506 in 2021 Legislative Special Session: staff is creating JDQ's
Programs Coordinator	Authorized by HB 1506 in 2021 Legislative Special Session: staff is creating JDQ's

4. Current Procurement Activities including:

- **PAS Project** – We anticipate the contract negotiating phase to complete within February 2022. The ESC may issue a notice of award at the conclusion of contract negotiations and Phase 3 (final phase) will initiate.
- **Legacy Fund Advisory Board Consultant RFP** – The consultant for the Legacy Fund Advisory Board RFP was issued in January 2022. Finalists may be presented to the Advisory Board the week of February 14, 2022.

- 5. Strategic Planning:** RIO is undertaking the development of a comprehensive strategic plan by partnering with other state agencies who are leading such efforts. RIO has accepted an invitation to participate in a strategic planning project with ITD. RIO is also collaborating with HRMS for the strategic planning of staffing needs. Further, WSI has also offered to provide strategic planning guidance and assistance.

BOARD ACTION REQUESTED: Board Acceptance.

RETIREMENT AND INVESTMENT OFFICE
Internal Audit
2021-2022 2nd Quarter Audit Activities Report
October 1, 2021 – December 31, 2021

The audit objective of Internal Audit (IA) 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, 2021 through June 30, 2022 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.

There were several events that occurred during the first and second quarter of 2021-22 that altered the original work plan. The events were as follows: The Executive Director/Chief Investment Officer and the Deputy Chief Investment Officer resigned from their positions. Also, three Retirement Service/Administrative Services staff members retired - the Supervisor of Administrative Services, the Office Assistant, and the Membership Specialist. These staff members represent over one hundred years of service to RIO. RIO also moved to a new location in Bismarck at 1600 E. Century Ave, Suite 3 during the second quarter.

Investment and Agency Audit Activities

• **Executive Limitation Audit**

On an annual basis, IA reviews the Executive Director/CIO's level of compliance with the SIB Governance Manual Executive Limitation Policies A-1 through A-11. The Executive Limitations Audit was started in November 2021. The audit will review calendar year 2021.

After the resignation of the Executive Director/Chief Investment Office in June of 2021, the SIB separated the role of the Executive Director/Chief Investment Officer into two positions at the August 2021 SIB meeting: the Executive Director and the Chief Investment Officer. The Supervisor of IA is having to review, re-evaluate, and revise the audit program for Executive Limitations for the 2021 audit.

The audit will be completed and reported to SIB Audit Committee at the February 16, 2022 meeting.

• **External Audit Support**

IA provided support to our external audit partners, CliftonLarsonAllen (CLA), in the 2021 Annual Financial Audit. The results of the Independent Auditor's Report were presented to the SIB Audit Committee at the meeting held Nov 16, 2021. An unmodified "clean" opinion that the financial statements are presented fairly, in all material respects, in conformity with US Generally Accepted Accounting Principles (GAAP) was issued.

For the GASB 68 Census Data Audit, the Independent Auditor's Results was also issued for the Schedule of Employer Allocations and Pension Amounts by Employer. The Independent Auditors issued an 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 the US Generally Accepted Accounting Principles (GAAP).

For both audit reports, no material weaknesses or significant deficiencies were identified.

- **SIB Board Governance Review**

At the May 21, 2021 SIB meeting, the Board requested that the SIB Audit Committee review SIB Governance Policy B-2, governing style, in Section B governance process. The SIB Audit Committee was to clearly define inquiry and to review the Board's structure and how it operates and bring a recommendation back to the full Board. The SIB operates under the Carver Board Governance Model.

The SIB Board structure and membership is established in statute and would require that the statute be amended. IA researched and reviewed board governance and presented a report to the SIB Audit Committee. In the report, there were questions to be discussed/answered and possible recommendations for the SIB Audit Committee to consider at the August 11, 2021 Audit Committee meeting.

After discussion at the August meeting, the SIB Audit Committee requested the Supervisor of IA to develop a comprehensive on-boarding process for new SIB members, to develop a plan for annual Board education, and to establish a standing Governance and Policy Committee for the SIB. The draft report was reviewed at a special SIB Audit Committee meeting held October 14, 2021.

The draft report was presented by Dr. Lech to the SIB at the meeting held October 22, 2021. The IA Supervisor will be working with the Executive Director on the next step in the process of developing a standing Governance and Policy Committee.

- **SIB Executive Search Committee**

The Executive Director/Chief Investment Officer of RIO (ED/CIO) resigned from his position effective June 22, 2021.

The SIB Board selected and approved Board members to serve on the Executive Search Committee (ESC) at the August 2021 meeting. EFL, an executive recruitment service, was selected for the search at the end of July 2021 through the procurement process. At the August 27, 2021, SIB meeting, the SIB voted to divide the combined Executive Director/Chief Investment Officer (ED/CIO) position into two separate positions to better serve RIO's needs for current and future operations. The ESC proceeded to instruct EFL to first search for candidates for the CIO role. EFL felt that the applicant pool would increase by dividing the position as the two positions require different skill sets. The Supervisor of IA attended ESC meetings and assisted in providing requested information.

At the November 19, 2021 SIB meeting, the ESC represented by Dr. Lech, led discussion with the Board on selecting an Executive Director. The SIB Board voted on and appointed Ms. Jan Murtha to be the Executive Director of the Retirement and Investment Office.

During the second quarter, the ESC interviewed candidates provided by EFL for the CIO position. The top two candidates were selected by the ESC from the pool of candidates. They attended the special December 15, 2021 SIB meeting. The SIB Board conducted the two interviews and selected Mr. Scott Anderson as the Chief Investment Officer. His first day will be January 18, 2022.

- **Succession Planning**

Due to five staff members resigning/retiring during the first quarter, RIO Management reorganized the agency structure and job duties to better fit the current and future needs of the agency. During the first quarter, IA reviewed and analyzed the responsibilities for three of the vacant positions. IA wanted to ensure that current requirements and deadlines continued to be met. The responsibilities were

classified by function – Executive Boards, Continuity of Operations (Business Continuity), Human Resources, Procurement, Records Management, Risk Management (Risk Management/Workforce Safety programs), Investment Services, Fiscal Services, and Retirement Services (TFFR Administrative Assistant/Office Assistant). The duties were forwarded to RIO Management to assign to the newly organized positions.

In the second quarter, IA reviewed the job descriptions and duties for the newly organized positions: Contracts and Records Management Administrative Assistant, the Executive Administrative Assistant, Retirement Program Administrative Assistant, Temporary Office Assistant-Receptionist, and the Temporary Member Specialist. IA compared the new job duties to the retired positions job duties and found no omissions.

The Supervisor of IA attended meetings and provided information requested to prepare for the special Legislative Session. In the special session held in November 2021, the then interim/now Executive Director presented the risk associated with the shortage in RIO staff, and requested, and was granted six new FTE's – four investment positions, a Programs Outreach Coordinator, and another Accountant for Fiscal Services.

IA also attended education at the P2F2 virtual Conference on Business Continuity Management (BCM): after the pandemic and the lessons learned. The presentation explained updates that need to be made to the Business Continuity Plan (BCP) and changes to the business impact analysis (BIA) or risk assessments. The session also talked about the challenges of working remotely, changes that occur when returning to the office, things to consider with a long-term hybrid plan, and best practices for BCM post pandemic.

IA also attended another session on what to look for when auditing BCM and the BCP. This session listed the key components to BCP, emerging trends, the BCM lifecycle, overview of the BIA, the key contents of the BCP, and IA considerations.

Retirement Program Audit Activities

- **Annual Employer Participant Data/Salary Verification Review**

On an annual basis, IA verifies retirement salaries and contributions reported to TFFR for the prior fiscal year for 65 randomly selected member accounts. TFFR eligibility and service hours were also verified. The project increases the number of participating employers included in the overall audit activities and reinforces to our participating employers the importance of accurate reporting.

The Annual Participant Data/Salary Verification Review report on fiscal year 2018-19 was issued May 11, 2021 and was presented to the SIB Audit Committee at the May 2021 meeting. IA had three recommendations in the report.

During the first and second quarters, IA worked with Retirement Services as they responded to the three audit findings. The audit report was presented to the TFFR Board at the November 2021 meeting. The response to the audit report from Retirement Services was reported to the Audit Committee at the November 2021 meeting. IA has set-up a matrix to monitor the corrections when made by Retirement Services.

- **Benefit Payment Audit – Deaths**

A review of the processes and procedures was completed in April of 2020. The report was presented to the SIB Audit Committee at the May 2020 meeting.

IA recommended that RS's consider investigating the expanded use of LifeStatus 360 for national

searches on a daily or weekly basis and discontinue the manual searches of state newspapers and obituaries. Discontinuing the manual searches would free-up staff time which can be utilized for other time sensitive tasks. There will still be time associated with investigating the deaths located by the automated searches.

The LifeStatus 360 contract expired and their last search for TFFR was April of 2021. IA worked with the Executive Director, Procurement, and Retirement Services and issued a RFP for services. A contract was signed with PBI in September of 2021 to complete weekly search/comparisons of the CPAS database for deaths. The first payroll file was sent to PBI for comparison on 10/25/2021. TFFR has been receiving weekly reports of database comparison from PBI.

IA attended a meeting with RS's and NDIR staff to discuss the completeness of the PBI reports. IA reviewed and analyzed the procedures and reports of the database comparison received from PBI on the following dates: 10/28/2021, 11/4/2021, 11/11/2021, 11/18/2021, 11/25/2021, 12/9/2021, 12/16/2021, 12/23/2021, and 12/30/2021. The reports found 17 deaths. The retirees lived in California, Florida, Minnesota, North Dakota, Washington DC, and Wisconsin. Manual obituary searches will be discontinued in January of 2022. At the above meeting, RS's stated that there were three deaths missed by PBI and ND Vital Statistics. IA reviewed the three retiree's information and determined the that timing of the deaths was the issue. The deaths occurred after LifeStatus 360's contract expired, occurred before PBI was contracted, the deaths all occurred in Arizona, and the timing of the PBI reports during the holidays.

- **TFFR File Maintenance Audit**

On an annual basis, IA will review system generated (CPAS) audit tables to ensure transactions initiated by staff are expected and appropriate given an individual's role with the organization. Member account information from Member Action Forms, Address Change Forms, Direct Deposit Authorization Forms, and Point of Contact Forms are reviewed to verify that contact and demographic information has been updated correctly. The Records Management review was moved to Succession Planning. The Contracts and Records Management Administrative Assistant is now responsible for this function.

Audit fieldwork started the end of June 2021 and continued during the months of July and August 2021. IA was reviewing information for the month of May 2020 during the fourth quarter of 2020 (new procedures due to COVID) and the month of October 2020 during the second quarter of 2021.

Due to the Succession Planning review, the fieldwork was suspended, and the audit has not been completed. Audit work will continue during the third quarter of 2022. The audit timeframe will be adjusted due to the change in staff.

- **TFFR Pension Administration Software Assistance (PAS Project)**

TFFR was approved funds for a pension system upgrade by the legislature. IA assisted with Phase I & 2 by playing a role that was educational, consultative or audit in nature, and by bringing independent subject-matter expertise to the most common risk areas. IA's ability to operate across the agency and across all individual work streams in a program provides visibility of risks that might otherwise be lost between silos. IA also attended training on project management for auditors to help with the upgrade process.

RIO was on schedule and completed Stage 1 of the PAS project at the close of fiscal year 2020-21. In Stage 2 of the project, RIO planned procurement, developed the RFP, and issued the RFP on June 1, 2021. During the month of July, RIO management (including IA) reviewed the responses received to the issued RFP. RIO staff (including IA) also attended scheduled software demonstrations during the month of August.

During the second quarter, the Supervisor of IA has participated by attending meetings and completing assigned task during the negotiation process of the procurement process. The negotiation process has taken longer than anticipated and is still on-going.

IA also attended a session at the P2F2 conference in October 2021 on Pension Account Software. Another pension system gave a presentation on their experiences in updating their PAS. They shared their objectives, project goals, challenges, path to success and lessons learned. IA also attended a session on employer reporting and projects. Three other pension systems shared their experiences with instituting a new software for employer reporting. They talked about the phases for the project management, the business case for the change, roles and responsibilities, goals, achievements, what went well, and the lessons learned. They also discussed the general do's and don't when working with the employers during the change.

Administrative Activities

The IA staff attended the monthly RIO staff meetings, monthly RIO manager's meetings, divisional meetings, two Audit Committee meetings, three SIB meetings, two TFFR meetings, and one Securities Litigation meeting.

- **Records Retention**

IA has a retention schedule for the audit files and records. Annually, the schedule is reviewed to determine if changes need to be made. The annual purge of information occurred during the second quarter to meet the schedule set by NDIT Records Management. Almost all the audit files and records are currently electronic. IA maintains a table of contents for the information that describes the audit and what files are found on the audit drive. The table of contents is annually updated at this time. A list of new and purged files was forwarded to the Contracts and Records Assistant (CRA). The CRA then forwards the RIO agency information to Records Management at NDIT.

- **Office Relocation**

RIO moved to the new office space located at the Workforce Safety and Insurance Building at 1600 East Century Avenue, Suite 3, on November 22, 2021. IA staff assisted in packing, moving, unpacking, and setting up the new space.

- **Professional Development/CE/General Education**

IA staff attended the virtual Public Pension Financial Forum Annual Conference (P2F2) for education and training starting Oct. 19th and ending Oct. 29th. P2F2 included members from the Association of Public Pension Fund Auditors (APPFA) to attend their annual conference. Sessions were held daily with up to 35 CPES available to earn. The Pension 101 and 201 tracks were also scheduled two days prior to the general conference to provide foundational basis to attendees. Sessions were classified as General Session, Pension 101, Pension 201, General Accounting, Investment Accounting, Audit, and Employer Reporting/Personal Development: General session classes included some of the following topics: annual fiscal year-end report, actuarial-funding/monitoring, accounting best practices, audits - continuous/actuarial/annual, business continuity - plans and audits, the cloud, the role of custodians currently and in the future, cyber threats, the death match process, the economy, ethics, fraud, GASB 68 and 75, investment due diligence, investment technology and trends, IRS regulations, Nonverbal Communication for the virtual environment, pension obligation bonds, PAS projects learn from a peer, Employer reporting – project management, Stress and Time Management Skills, sustainability of funds, and third-party risk.

IA staff also attended quarterly NDIT training and agency wide color training. The color training will help IA to communicate better with RIO staff.

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
INTERNAL AUDIT DIVISION
FISCAL YEAR 2021 -2022**

	FY 2021 1st QTR	FY 2021 2nd QTR	FY 2022 3rd QTR	FY 2022 4th QTR	FY 2022 TOTAL
Audit Activities					
Retirement Program Audits:					
TFFR Employer Audit Program					0
<i>Employer (used Data Analytics) General Employer Audits</i>					0.00
<i>Audit Peer Reviews/TFFR Meeting(s)/Audit Planning/Audit Notifications</i>	32	35			67
Benefits Audit - Deaths, Long-Outstanding Checks, Long-term Members		29			29
TFFR Cost Effective Review					0
TFFR Pension Data System - PAS	131	34			165
TFFR Direct Deposit Reviews		2			2
TFFR File Maintenance Audit	66				66
TFFR Purchase-Refund Audit					0
TFFR Task reports					0
Annual Salary Verification Project	7				7
Agency Administrative and Investment Audits:					
Executive Limitations Audit and Executive Review Committee	7	28			35
Executive Search Committee	13	16			29
Internal Control Assessment					0
Risk Management		1			1
Administrative Policy Review	6	2			8
Consulting	34				34
Governance Review	56	38			94
RIO External Auditor Assistance	26	3			29
RIO Succession Planning	132	78			210
Administrative Activities					
Administrative - Staff Mtgs, Time Reports, Email, Records Retention, General Reporting	122	190			312
RIO Move		123			123
Division, COVID-19 Meetings, Preparation, etc.	30	63			93
Audit Committee/SIB/TFFR Attendance and Preparation	210	156			366
Professional Development/CE/General Education	0	69			69
Annual Leave, Sick Leave, and Holidays	193	184			377
Quarterly Total:	1065	1049	0	0	2114

Total Hours for 2021-2022 4,160

D. Thorsen Total Hours 2021-2022 2,080

S. Sauter Total Hours 2021-2022 2,080

Internal Audit Report
Succession Planning Phase I
February 15, 2022

Background

The Retirement and Investment Office (RIO) is responsible for administering two programs: the State Investment Board (SIB) program, which serves 27 government client funds, and the Teachers' Fund for Retirement (TFFR) Program, which serves over 20,000 members and over 200 employers. The State Investment Board program currently has over 20 billion dollars in assets under management (AUM) as of December 31, 2021, compared with 4.8 billion AUM in fiscal year 2010. RIO's investment program has more than quadrupled in just over a decade. The TFFR program is also procuring a new pension administration system, as the current system is over 15 years old.

Within the past 19 months, the top two staff members from each of the respective programs left within 60 days of each other. In 2020, the retirement program had their Chief Retirement Officer and Retirement Program Manager both retire within 60 days of each other. In June 2021, the Executive Director/Chief Investment Officer resigned. In August 2021, the Deputy Chief Investment Officer resigned from their position. In August 2021, the Supervisor of Administrative Services and the Office Assistant retired. In September 2021, the Membership Specialist retired from the retirement program. These departures represent over 150 years of institutional knowledge.

Due to the vast amount of knowledge that left RIO in a short timeframe and the agency's ongoing substantial amount of responsibility, the need for succession planning was highlighted as there was no formal succession plan in place. In August 2021, the Interim Executive Director requested from the SIB Audit Committee the assistance of the Internal Audit Division in reviewing succession planning and coming forth with recommendations. On August 11, 2021, the SIB Audit Committee approved for Internal Audit Staff to work with the RIO's executive staff on outlining the parameters of a succession planning audit. On August 20, 2021, a kick-off meeting with Internal Audit Staff, the Interim Executive Director, Interim Chief Investment Officer, Chief Financial Officer/Chief Operating Officer, and the IT Supervisor met to discuss succession planning.

The attendees of the kick-off meeting agreed that succession planning would need to be done in phases as it is a significant project with staff limitations. The first phase would focus on documentation and immediate risks.

RIO Management reorganized the agency structure effective September 1, 2021, to better fit the current and future needs of the agency.

Scope

Review the vacated positions to ensure proper documentation of their responsibilities and that all responsibilities were transferred to the new positions developed in the reorganization of RIO. Secondly, review the risks facing the investment program.

Observations

Internal Audit staff split the reviewing of the programs with the Internal Auditor reviewing and documenting the retirement program, and the Supervisor of Internal Audit reviewing the risk pertaining to the investment program.

Step one was to review the organization structure and job duties. On July 1, 2021, the RIO's information technology staff was transferred to NDIT as part of the state initiative for information technology unification. Effective September 1, 2021, RIO's organization was restructured. This reflected the splitting of the Executive Director and Chief Investment Officer and the reorganization of the administrative support staff. Administrative staff had been its own division but to better assist the agency going forward the positions were reorganized. There now is a TFFR Administrative Assistant to support the retirement program, Contracts/Records Administrative Assistance to support the fiscal and investment programs, and an Executive Administrative Assistant to support the executive positions and boards. The previous Supervisor of Administrative Services was also RIO's Office Manager. The responsibilities of the Office Manager were allocated to the fiscal division. The Chief Financial Officer took the oversight responsibilities to centralize office operations, and the new title is Chief Financial Officer/Chief Operating Officer.

During the first quarter of the fiscal year 2022, IA reviewed and analyzed the responsibilities for the vacant positions: Supervisor of Administrative Services, Office Assistant, Membership Specialist, and the TFFR Administrative Assistant. IA wanted to ensure that current requirements and deadlines continued to be met. The responsibilities were classified by function – Executive Boards, Continuity of Operations (Business Continuity), Human Resources, Procurement, Records Management, Risk Management (Risk Management/Workforce Safety programs), Investment Services, Fiscal Services, and Retirement Services.

In the second quarter, IA reviewed the job descriptions and duties for the newly organized positions: Contracts and Records Management Administrative Assistant, the Executive Administrative Assistant, Retirement Program Administrative Assistant, Temporary Office Assistant-Receptionist, and the Temporary Member Specialist. IA compared the new job duties to the retired positions job duties and found no omissions.

Secondly, IA held meetings with the executive staff during the first and second fiscal quarters of 2022. The focus of the meetings was to document the risks for the programs. At the time, there were 19 full-time employees (FTEs) allotted to RIO to support both the retirement and investment programs. The 2021 Legislative Assembly Special Session was held in November 2021. House Bill 1506 approved an additional six FTEs for RIO. This includes four additional investment positions, one accounting position, and an outreach programs coordinator. As of December 1, 2021, RIO was allocated 25 FTEs for both programs.

With the additional FTEs that were granted, many of the investment program's risks were alleviated. The following risks could occur again due to growth in the program.

Executive Level

The risks to the RIO agency if staffing is not adequate can be substantial for the organization, its clients, and members. Lack of adequate staffing means that legislative mandates take longer to implement, operations suffer such as outreach levels for TFFR and SIB, committee meetings could be canceled, and the risk of burnout for the remaining staff due to the demands. The SIB may not be able to approve complex asset allocations and move to a passive instead of active investment management strategy. The TFFR Board may have to reduce the level of service expected for its membership. This results in clients having to lower benchmarks and reduce performance expectations. Both the SIB and TFFR Boards may also find themselves in a position to prioritize program needs.

Investments

The investment program only had four investment professionals dedicated to the investment program. With the resignation of two investment professionals, the investment team was cut in half. The substantial growth in investment assets and the complexity of asset allocations can pose a severe risk. Additional investment professionals were needed to give more depth and back-up for the investment program. As the investment program grows, staffing needs should be evaluated and added if needed. If the investment program is not adequately staffed, potential risks can be a loss of assets, not generating benchmark returns, asset allocations not being implemented, and inadequate monitoring. There is also a steep learning curve for any investment professional when hired. Onboarding a new investment professional is time-intensive due to the complexity of learning the processes, systems, and allocations.

Fiscal

The fiscal division works with both the investment and retirement programs. The fiscal divisions main priorities are paying bills, rebalancing asset allocations, processing client flows (cash requests), external audit, reconciling accounts, budget, procurement, records management, tax reporting, reconciling CPAS, processing daily deposits and generating monthly financial statements for investment clients. The fiscal division does monthly investment performance reports for all 26 clients and ensures that investment fees are paid timely to the approximately 40 investment managers currently hired. Despite the growth with both programs, the fiscal staff is comprised of three accounting professionals and one administrative staff. One additional FTE was allocated to the fiscal division with the passage of HB 1506 in special session. Potential risks that can occur if fiscal operations are not adequately staffed are as follows: asset allocations not in balance, clients are not getting cash requests processed, financial performance monitoring not being completed timely for clients, agency bills going unpaid, accounts not being reconciled, not meeting contract requirements such as capital calls, financial statements not completed in a timely manner, and daily deposits not being posted.

Recommendations and Conclusions

IA has the following recommendations:

1. Documented succession planning for all executive staff identifying the key responsibilities for each.
2. Document a plan for the agency and each program if the top two positions were to leave the organization simultaneously.
3. Evaluate the purpose and duties of positions as they become vacant.
4. Review the agency's staffing needs on a biannual basis to ensure that there is adequate staff to keep pace with the agency's growth.

MEMORANDUM

**TO: State Investment Board (SIB)
State Investment Board (SIB) Audit Committee
Janilyn Murtha, Executive Director**

FROM: Sara Sauter, Supervisor of Internal Audit

DATE: February 16, 2021

SUBJECT: Executive Limitations Final Audit Report

Significant changes have happened within the Retirement and Investment Office in 2021. In June 2021, the Executive Director/CIO resigned from RIO. In August 2021, the State Investment Board voted to split the position. Only the Executive Director position will be reporting to the Board directly, and the Chief Investment Officer will be reporting to the Executive Director. Due to staffing issues and time constraints, updating the Executive Limitations in the Governance manual to reflect the position changes was not completed. However, on November 16, 2021, the Audit Committee approved for Internal Audit to use the necessary discretion to do the Executive Limitations Audit. On November 19, 2021, the State Investment Board appointed Janilyn Murtha as the Executive Director who had been the acting Interim Executive Director since June 2021.

Internal Audit has completed the annual review of the Executive Director's level of compliance with the State Investment Board (SIB) Governance Manual Executive Limitation policies for the calendar year beginning January 1, 2021 and ending December 31, 2021.

The governance policies reviewed during the audit were:

- General Executive Constraint (A-1)
- Staff Relations (A-2)
- Relating to Public and Government (A-3)
- Budgeting (A-4)
- Financial Condition (A-5)
- Communication and Counsel to the Board (A-6)
- Asset Protection (A-7)
- Compensation and Benefits (A-8)
- Conflict of Interest (A-9)
- Code of Conduct (A-10)
- Unrelated Business Interests (A-11)

Internal Audit is sufficiently satisfied that the Executive Director was in compliance with SIB Governance Manual Executive Limitation Policies A-1 through A-11 during calendar year 2021.

**RETIREMENT AND INVESTMENT OFFICE
INTERNAL AUDIT
EXECUTIVE LIMITATIONS AUDIT REPORT
January 1, 2021 – December 31, 2021**

Executive Limitations – General Executive Constraint (A-1)

The following documents were reviewed and found to support the Executive Director’s compliance with Executive Limitation A-1:

- Executive Team Members – Communication Questionnaires
- State Investment Board (SIB) Meeting Agendas, Materials, and Minutes

The executive team indicated that frequent communication occurs regarding board and executive issues and processes. Executive team members believe they are well informed and not lacking pertinent or relevant information. The executive team continues to demonstrate great cohesiveness. There is still a consensus regarding the most important issues facing the organization. With the sudden departure of two executive team members in 2021, a formal succession plan for executive staff currently is in development.

Executive Limitations – Staff Relations (A-2)

The following documents were reviewed and found to support the Executive Director’s compliance with Executive Limitation A-2:

- RIO Administrative Manual and Employee Acknowledgements
- RIO Termination Checklist, Exit Interview, and Employee Termination Documents
- ND State Engagement Surveys

RIO maintains an Administrative Manual which includes personnel rules for staff, provides for the effective handling of grievances, and protects against wrongful conditions or violations of state and federal law. All staff members signed acknowledgements indicating that they reviewed and understood all policies contained within the Administrative Manual. The ND State Engagement Surveys confirm that the office culture continues to improve.

Executive Limitations – Relating to Public and Government (A-3)

The following documents were reviewed and found to support the Executive Director’s compliance with Executive Limitation A-3:

- 2021 SIB Client Satisfaction Survey and Responses
- RIO Administrative Manual (Media Policy), Media Inquiry
- Open Record Requests

SIB clients were asked to rate the services provided by RIO staff on behalf of the SIB. A score of 3.63 was received on a 4.0 weighted average scale. Comments received were generally positive and indicated clients have a great deal of trust in staff, staff is knowledgeable and helpful. The Executive Director routinely responds to media requests and open records requests. The requests reviewed revealed that information provided by staff was accurate and when applicable distinguished between fact and personal opinion. Open records requests are tracked and appear to be responded to in a reasonable time.

Executive Limitations – Budgeting (A-4) and Financial Condition (A-5)

The following documents were reviewed and found to support the Executive Director's compliance with Executive Limitation A-4 and A-5:

- RIO 2021-2023 Biennium Budget and Other Supporting Documentation
- Budget and Financial Condition Quarterly Monitoring Reports – SIB Meeting Materials
- Investment Fee Monitoring
- Legislative Special Assembly 2021 Documentation
- Contingency Line Request & Approval

A review of the quarterly monitoring reports for fiscal year 2021 revealed that RIO operated well within budget and had not made any expenditure which exceeded the appropriation authorized by the legislature. RIO's budget for the 2021-2023 biennium was approved by the legislature with House Bill 1022. Additional funding and staffing were approved by the legislature during the 2021 special session with House Bill 1506. During calendar year 2021, RIO did not reduce the level of service of any programs nor request the assistance of the Emergency Commission. Investment fees increased for fiscal year 2021 due to the strong investment performance with the infrastructure managers and private equity managers. Investment fees increased to 0.64% in fiscal year 2021 from fees of 0.45% in fiscal year 2020. In fiscal year 2021, the SIB approximately paid \$120.98 million in fees and earned approximately \$361.9 million in estimated excess returns after fees. The \$361.9 million is in excess of returns after the benchmarks were met and fees were paid. RIO continues to earn positive risk adjusted rates of return all while reducing fees for most clients. All but one client earned net returns which exceeded their respective policy benchmarks for the 5-year period ending June 30, 2021.

Executive Limitations – Communication and Counsel to the Board (A-6)

The following documents were reviewed and found to support the Executive Director's compliance with Executive Limitation A-6:

- SIB Governance Manual Policy C-4 (Monitoring Executive Performance Policy)
- SIB Meeting Agendas, Materials, and Minutes – Calendar Year 2021
- RIO Financial Audit - Fiscal Year Ended June 30, 2021

The SIB receives quarterly internal reports on staff relations, financial conditions, investment services, and investment performance. CliftonLarsonAllen, external auditor, completed the annual financial audit for year ended June 30, 2021, issued an unmodified clean opinion. Callan LLC provides quarterly external reports on the investment performance of the consolidated pension trust, consolidated insurance trust, and the Legacy Fund throughout the fiscal year. In calendar year 2021, board education included Meaning in Numbers, ND Growth Fund Investment Process, Equity Markets, SIB Investment Operations, and Audit Operations to help provide the board with the necessary information required to facilitate informed decision making.

Executive Limitations – Asset Protection (A-7)

The following documents were reviewed and found to support the Executive Director's compliance with Executive Limitation A-7:

- State Fire and Tornado Fund Insurance Policy – FY 2021 and FY 2022
- OMB/Risk Management – Risk Management Fund Manual
- State Bonding Fund – Commercial Blanket Bond – CY 2021
- RIO Financial Audit - Fiscal Year Ended June 30, 2021
- SIB Meeting Agendas, Materials, and Minutes – Nov 20, 2020

Executive Limitations – Asset Protection (A-7) (continued)

RIO has obtained adequate insurance for board members, staff, and the organization to protect against theft and casualty losses as well as to protect against liability losses. All RIO personnel who have access to funds are properly bonded. External auditors, CLA, confirmed that funds are received, processed, and distributed under controls which are sufficient to meet State Auditor standards. The most recent asset allocation information available from Callan LLC is as of September 30, 2020. Most asset classes in the consolidated pension trust were within less than +/- 2% of asset allocation target levels. All asset classes in the consolidated insurance trust were within less than +/- 1% of asset allocation target levels. The asset classes in the Legacy Fund were all within less than +/- 1% of asset allocation target levels. Actual asset allocation versus target asset allocation data indicates that current asset allocations are well within established thresholds. Risk-adjusted excess returns measure how much risk was required to produce an investment return. Actual portfolio results adjusted by its risk are compared to a benchmark portfolio. Positive risk-adjusted excess returns indicate that returns have been generated without excess risk. RIO continues to earn positive risk adjusted rates of return all while managing fees for most clients. All but one client earned net returns which exceeded their respective policy benchmarks for the 5-year period ending June 30, 2021.

Executive Limitations – Compensation and Benefits (A-8)

The following documents were reviewed and found to support the Executive Director's compliance with Executive Limitation A-8:

- OMB ND Salary Ranges – July 1, 2021 – June 2022
- RIO Salaries & Pay Grades
- ND Administrative Code, Chapter 04-07-02
- SIB Meeting Agenda, Materials, and Minutes
- ND State Personnel Board
- Executive Search Committee Meeting Materials and Minutes

A review of available documents confirmed that compensation and benefits for staff are compliant with the ND Administrative Code, Chapter 04-07-02. The SIB separated the Executive Director and Chief Investment Officer position in August 2021. The SIB hired both positions and approved the respective salaries. The ND State Personnel Board approved two additional non-classified positions for RIO. As of December 31, 2021, RIO was approved to have 25 FTEs, however, only 15 of them were filled at the time.

Executive Limitations – General Executive Constraint (A-1), Conflict of Interest (A-9), Code of Conduct (A-10), and Unrelated Business Interests (A-11)

The following documents were reviewed and found to support the Executive Director's compliance with Executive Limitation A-1, A-9, A-10, and A-11:

- SIB Governance Manual Policy A-9 and Conflict of Interest Statement
- SIB Meeting Agenda, Materials, and Minutes – Feb 26, 2021 and July 23, 2021
- SIB Audit Committee Agenda, Materials, and Minutes – Feb 25, 2021

The Executive Director affirmed understanding of the Executive Limitation Conflict of Interest Policy (A-9) located within the SIB Governance Manual. Executive team members independently confirmed that they are not aware of any actual or perceived conflicts of interest concerning the Executive Director.

MEMORANDUM

TO: State Investment Board (SIB) Audit Committee

FROM: Sara Sauter, Supervisor of Internal Audit

DATE: February 16, 2022

SUBJECT: Update on Current Internal Audit Activities

Internal Audit (IA) 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
- Executive Limitations Audit – Phase 5
- Internal Control Assessment – Phase 2
- RIO Policy Manual update – Phase 2
- PAS –Pension Administration Software – Stage 2 (in negotiations)
- TFFR File Maintenance – Phase 2
- Succession Planning Phase I

Per the request to the Audit Committee, the Supervisor of IA continues to work with the Executive Director on developing a Standing Governance and Policy Committee for the SIB, developing a comprehensive on-boarding process for new Board members, and a plan for annual SIB education in 2021. The Executive Director presented the first reading of the Governance and Policy Review Committee to the SIB in the January meeting. A second reading is scheduled for the February SIB meeting.

The Executive Review Committee requested IA's assistance in administering a board self-assessment evaluation. The Committee will review last year's survey to adjust as needed. The Supervisor of IA will make the suggested revisions and administer the self-assessment survey to the SIB in January and February of 2022. The results will be presented at the February SIB meeting.

The Executive Review Committee also annually evaluates the Executive Director of the North Dakota Retirement and Investment Office. In past years the Executive Review Committee requests the assistance of the Supervisor of Internal Audit to help facilitate the surveys and committee meeting materials. It is anticipated that the Executive Review Committee will request the assistance again this year.

The IA Supervisor continues to attend meetings on the negotiations in process for the PAS system. Management is hopeful to move to the next step in the process at the end of February. Kickoff for the PAS project could be as soon as March or April 2022.

IA attended meetings on employer model compliance (Model 2-partial) and provided past audit history with an employer.

The Internal Auditor started fieldwork on the TFFR File Maintenance Audit at the end of January. Instead of reviewing information from October of 2020, information from October of 2021 will be reviewed.

Due to Succession planning, moving to another office, and the PAS project, the 2021/22 Audit Plan has had to be adjusted. IA has had Division meetings to discuss audit projects for the third and fourth quarter. Discussion will be had at the February AC meeting on next steps.

Internal Audit will be participating in Crucial Conversations in February 2022 with other RIO staff members.

RIO is undertaking the development of a comprehensive strategic plan by partnering with other state agencies who are leading such efforts. RIO has accepted an invitation to participate in a strategic planning project with ITD, the first meeting was held in January 2022. RIO is also collaborating with HRMS for the strategic planning of staffing needs. Strategic Planning meetings are scheduled for February and March to continue development.

The Executive Director, Executive Assistant, and Supervisor of Internal Audit will be reviewing the Administrative Manual for RIO to see if updates or changes are needed.

IA is proposing the following scopes for upcoming audits to be completed by fiscal year 2021/22:

- A proposed audit plan for the upcoming fiscal year 2022/2023
- TFFR File Maintenance – IA will complete the suspended audit. Annually, IA reviews system generated audit tables to ensure transactions initiated by staff are expected and appropriate. The processes for entering information on Member Action Forms, Change of Address forms and Point of Contact forms after a death with no benefits are also reviewed.
- Model 2 Partial Compliance Review – Due to an error found in the Participant Data Audit-Salary Verification, IA will request the Employer to verify the model payment plan used to report salary and contributions to TFFR. IA will also request contracts and payroll records for one member from each employer and verify that the information reported to TFFR is correct. If any error is found, the information will be forwarded to Retirement Services.

#	Topic	Recommendation	Source	Identified	Owner	Expected Start Date	Expected Completion Date	Status
1	Governance	Identify governing policies, rules, statutes, etc., that directly affect NDRIO operations and evaluate the potential for changes.	Segal Current Business Model Review	3/25/2021				
2	Administration	Work with Contributing Employers - requirements, format, accuracy, timeliness of reporting, etc.	Segal Current Business Model Review	3/25/2021				
3	Administration	Update/Create Process Manuals.	Segal Current Business Model Review	3/25/2021				
4	Administration	Inventory all system output needs (i.e., correspondence, forms, reports, batch jobs, interfaces, etc.)	Segal Current Business Model Review	3/25/2021				
5	Administration	Develop and publish processing schedules / calendars.	Segal Current Business Model Review	3/25/2021				
6	Administration	<ul style="list-style-type: none"> • Evaluate and implement process improvements for various business processes: <ul style="list-style-type: none"> o Presumptive Process o Dual Members o Death Processing o Imaging / Correspondence Tracking / Bar-Coding 	Segal Current Business Model Review	3/25/2021				
7	Fund Policy	Review Statutes, Rules & Board Policies that affect underlying Policy decisions (e.g., "Return to Teach")	Segal Current Business Model Review	3/25/2021				
8	Incident Response Plan	Identify critical resources, personnel and software that may be impacted by incident; Identify actions to be taken with step-by-step procedures; Identify roles and responsibilities before, during and after an incident.	Cybersecurity Assessment	3/25/2021				
9	Data Encryption Tooling and Procedures	Utilize tooling to encrypt all devices, data in transit and PII or PHI; Encrypt Emails	Cybersecurity Assessment	3/25/2021				
10	Incident Response Plan Test Results	Test the plan and document results (test on regular basis); Review the results to ensure roles and responsibilities are clear; Document lessons learned	Cybersecurity Assessment	3/25/2021				
11	Access Control Policy	Require all systems to have authentication process; provide users with least functionality required for roles and responsibilities; 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	Cybersecurity Assessment	3/25/2021				
12	Security Training Curriculum	Include topics: computer viruses, password management, email use, encryption, attachments; Include statement regarding NDIT provides training	Cybersecurity Assessment	3/25/2021				
13	Incident Response Run Books	Record each risk and document procedures for how to handle incident; Complete table top exercises, document lessons learned and update as needed	Cybersecurity Assessment	3/25/2021				
14	Communication Strategy	Develop and document a detailed communication strategy with the team	Segal 10 Key Assessment	3/25/2021				
15	Communication Branding	Determine how you will brand communications going forward, including logo and look/feel. NOTE: It will take time for the transition to occur	Segal 10 Key Assessment	3/25/2021				
16	Hire a Public Information Officer	Hire a Public Information Officer to make these and other tasks feasible	Segal 10 Key Assessment	3/25/2021				

#	Topic	Recommendation	Source	Identified	Owner	Expected Start Date	Expected Completion Date	Status
1	Employer Reporting	Apple Creek - 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 and correct the account.	Salary Verification Audit	5/11/2021	Retirement Service Manager / Employer Service Coordinator	8/1/2021	3/31/2022	
2	Employer Reporting	Belcourt - 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.	Salary Verification Audit	5/11/2021	Retirement Service Manager / Employer Service Coordinator	8/1/2021	3/31/2022	
3	Employer Reporting	Bowbells - 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.	Salary Verification Audit	5/11/2021	Retirement Service Manager / Employer Service Coordinator	8/1/2021	3/31/2022	
4	Employer Reporting	Center- Stanton- 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.	Salary Verification Audit	5/11/2021	Retirement Service Manager / Employer Service Coordinator	8/1/2021	3/31/2022	

5	Employer Reporting	Devil's Lake - 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. The second error was an immaterial amount that IA does not recommend correcting.	Salary Verification Audit	5/11/2021	Retirement Service Manager / Employer Service Coordinator	8/1/2021	3/31/2022	
6	Employer Reporting	Drayton - 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.	Salary Verification Audit	5/11/2021	Retirement Service Manager / Employer Service Coordinator	8/1/2021	3/31/2022	
7	Employer Reporting	Dunseith - 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.t.	Salary Verification Audit	5/11/2021	Retirement Service Manager / Employer Service Coordinator	8/1/2021	3/31/2022	
8	Employer Reporting	Elgin - 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.	Salary Verification Audit	5/11/2021	Retirement Service Manager / Employer Service Coordinator	8/1/2021	3/31/2022	
9	Employer Reporting	Glenburn - 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.	Salary Verification Audit	5/11/2021	Retirement Service Manager / Employer Service Coordinator	8/1/2021	3/31/2022	
10	Employer Reporting	Halliday - 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.	Salary Verification Audit	5/11/2021	Retirement Service Manager / Employer Service Coordinator	8/1/2021	3/31/2022	

11	Employer Reporting	Hettinger - 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.	Salary Verification Audit	5/11/2021	Retirement Service Manager / Employer Service Coordinator	8/1/2021	3/31/2022	
12	Employer Reporting	James River Multi-District Special Education - 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.	Salary Verification Audit	5/11/2021	Retirement Service Manager / Employer Service Coordinator	8/1/2021	3/31/2022	
13	Employer Reporting	Maple Valley - 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.	Salary Verification Audit	5/11/2021	Retirement Service Manager / Employer Service Coordinator	8/1/2021	3/31/2022	
14	Employer Reporting	Nesson - 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.	Salary Verification Audit	5/11/2021	Retirement Service Manager / Employer Service Coordinator	8/1/2021	3/31/2022	
15	Employer Reporting	Sheyenne Valley Special Ed - 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.	Salary Verification Audit	5/11/2021	Retirement Service Manager / Employer Service Coordinator	8/1/2021	3/31/2022	
16	Employer Reporting	Wahpeton - 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.	Salary Verification Audit	5/11/2021	Retirement Service Manager / Employer Service Coordinator	8/1/2021	3/31/2022	

17	Employer Reporting	IA recommends that RS's validate model 2 partial 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.	Salary Verification Audit	5/11/2021	Retirement Service Manager / Employer Service Coordinator	8/1/2021	3/31/2022	
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**TFFR Mission
Statement:**

To administer a comprehensive retirement program that provides North Dakota public educators with a foundation for retirement security.

Briefly

FEBRUARY 2022

Salary Verification-Pending Retiree Form

To assist TFFR in the salary verification process prior to a teacher retiring, complete the [Salary Verification-Pending Retiree form](#). Please submit the form to us as soon as you have it completed. It takes about 120 days to complete the retirement paperwork, so the sooner we get it, the better! Do your best to estimate the salary to be earned in the remaining months. If you become aware of a large difference in the person's pay (\$1,000 or more) after submitting the form, simply send TFFR an e-mail with the amount and reason for the salary change.

Please include documentation for any extra salary over \$1,000.00 that has been added to the form under Additions/Reductions to Base Contract.

This form provides TFFR with salary detail for the current fiscal year and is used to estimate the teacher's final salary. Ninety percent of the salary estimate is used to calculate the initial retirement benefit. Once the employer has reported all salary for the retiree, the retirement benefit is recalculated and corrected retroactively, if needed.

Tax Treatment of TFFR Contributions

Employers may report TFFR contributions on the W-2 form. TFFR is a 401(a) defined benefit plan and its contributions are mandatory, not elective. Under all models, the amount of TFFR contributions withheld or paid by the district is not required on the W-2 form. However, if the district wishes to place this information on the W-2, it belongs in Box 14.

NDRIO Moved!



In an effort to align with Governor Burgum's initiative to maximize the use of state-owned facilities and reduce rent expenses for state agencies, NDRIO/TFFR has moved to the Workforce Safety and Insurance (WSI) building. However, our mailing address will remain the same.

Physical Address

1600 East Century Avenue, Ste. 3
Bismarck ND 58503

Mailing Address

PO Box 7100
Bismarck ND 58507-7100

2021 Annual Financial Report Available

For a complete review of the financial, investment, and actuarial conditions of the State Investment Board (SIB) and the Teachers' Fund for Retirement (TFFR), please view the Retirement and Investment Office (RIO) [2021 Annual Comprehensive Financial Report \(ACFR\)](#).

TFFR Education Opportunities for Business Managers

We are working on the virtual Business Manager Education Workshops, with the first one being offered in February! They will be under an hour and at different times and days, so that you can all attend. And we have some great topics on our list!

Watch your email for the invite and the topic for discussion!

Also, we are planning a New Business Manager Workshop in March! We have been keeping a list of the New Business Managers, but we also encourage you to reach out to us, if you are interested in attending!

Stay tuned!

Why Does Audit Keep Picking On Me?



Ever think that you are always getting requests from auditors for an audit? Thinking how do I keep getting selected, or are they picking on me?

There are multiple audits (both internal and external) that go on each year that include the Participant Data Review, Employer Reviews, GASB Audit, and employer contribution confirmations that are a part of the financial statement audit.

There are currently 207 employers, and between the different audits or reviews performed each year, approximately 80-90 employers are selected. As both internal and external try not to pick the same employers within a year, it does happen.

Some factors for consideration when selecting a sample also can include but are not limited to:

- The size of the employer
- History of reporting errors
- Length of time since the last review
- Significant changes to the employer (e.g., model change)

For all completed audit reports and further explanation of each audit please visit <https://www.rio.nd.gov/state-investment-board-sib/state-investment-board-audit-committee>.

If you have any questions or concerns, please reach out to Internal Audit staff either Supervisor of Internal Audit Sara Sauter and Internal Auditor Dottie Thorsen at 1-800-952-2970.

IRS Compensation Limit

Annually, the IRS issues a compensation limit that impacts the salary that can be reported to TFFR for benefit calculation purposes.

The 2022 compensation limit increased to **\$305,000**.

If you have any TFFR employees that will be earning in excess of this amount, please contact Denise Weeks, TFFR Retirement Program Manager, to discuss how to handle salary reporting for these employees.

Retirement Rule of 85/ Rule of 90, Minimum Age 60 Eligibility Report

Upon request, TFFR can provide school districts with a Retirement Eligibility Profile report. This report gives the district a 30-year projection regarding TFFR member retirement eligibility. The report also contains the names of individuals for workforce planning purposes. The personal information must be kept confidential. If you are interested in receiving a profile for your district, please email the Retirement and Investment Office at rio@nd.gov. Due to timing issues with new members and retirees, the retirement profile is not available from July through October of each year.

Pension Administration System (PAS) Modernization Project

The 2019 Legislative session provided NDRO the funding for an upgrade to the pension administration system. This upgrade will allow better online capabilities for members and employers. NDRO is currently in contract negotiations with a possible vendor. In order to have complete data on our members, please have new members complete all required sections of the Member Action Form and Designation of Beneficiary forms.

GASB Statement 68 Update

The audited fiscal year 2021 GASB 68 information, including the Employer Allocations and Pension Amounts by Employer Schedules, GASB 68 Disclosure Template, and Sample Journal Entries, are now available on our website. Employers and auditors can use this information to complete your 2022 financials.

All of the [GASB 68 information](#) can be found on our website.

Fax-line Out of Commission Indefinitely

Currently, RIO's fax-line is not working. If you need to submit paperwork or forms to TFFR, please send them either through regular mail or email.

Mailing Address –
NDRIO, PO BOX 7100, BISMARCK ND 58507-7100

Email Address to request a secure link – rio@nd.gov



Retirement and Investment Office (RIO) Staffing Update

The Retirement and Investment Office is pleased to announce Jan Murtha has been promoted to Executive Director. Jan served as Chief Retirement Officer since June 2020. She replaces David Hunter who served as Executive Director/Chief Investment Officer since 2014.

We are also happy to announce the onboarding of Scott Anderson who took the position Chief Investment Officer. Mr. Anderson has over 20 years of investment management experience.

Other new staff updates include:

Mensah Anyide-Ocloo – Retirement Services Administrative Assistant
Missy Kopp – Promoted to Executive Administrative Assistant
Emmalee Rieger – Fiscal Services Administrative Assistant
Rachelle Smith – Retirement Services Administrative Assistant

We are excited for the promotions within our organization and the additions to the RIO team!

TFFR Forms

- Please submit a [Notification of School District Change](#) form if there are any changes in contact (i.e. superintendent/business manager) or demographic information.
- If you are employing a new teacher, TFFR will need a new [Member Action](#) form and a [Designation of Beneficiary](#) form.
- If the teacher has a change of address or name, they need to fill out and sign a [Change of Name or Address](#) form.
- If you have employed a TFFR retiree, please make sure to complete the [TFFR Retired Member Employment Notification](#) form. This form must be completed each year a retiree is employed and submitted to TFFR no later than 30 days after employment begins.
- These forms and other ones you may need are also found on our website: <https://www.rio.nd.gov/teachers-fund-retirement-employers>



Teachers' Fund For Retirement
RETIREMENT & INVESTMENT

Employer Newsletter

ND Teachers' Fund for Retirement
1600 East Century Ave, Suite 3
PO Box 7100
Bismarck, ND 58507-7100
Phone: 701.328.9885
Toll-Free: 1.800.952.2970
Website: www.rio.nd.gov

TFFR Vision Statement:

To be a trusted leader in the administration of a financially sound retirement program for North Dakota educators by providing exceptional customer service, professional plan management, and organizational effectiveness by adhering to the principles of good governance, transparency, and accountability.