

AUDIT COMMITTEE MEETING

Tuesday, May 10, 2022 – 10:00 AM
Workforce Safety & Insurance Conference Room
Teleconferencing – 701.328.0950 Participant Code – 863 696 494#
1600 E Century Ave Suite 1, Bismarck, ND 58503

AGENDA

- I. Call to Order and Approval of Agenda – Chair (committee action)
- II. Approval of February 16, 2022, Minutes – Chair (committee action)
- III. Welcome New Member – Cody Mickelson TFFR Representative
- IV. Presentation of July 1, 2021 to June 30, 2022 Fiscal Year Financial Audit Scope and Approach – Paul Niedermuller & Tonia Shulz, CLA (committee action) (20 minutes)
- V. Manager Selection – Scott Anderson (educational) (15 minutes)
- VI. Executive Limitations/Staff Relations – Jan Murtha (informational) (15 minutes)
- VII. Executive Director Requests – Jan Murtha (committee discussion) (15 minutes)
- VIII. 2021 - 2022 Third Quarter Audit Activities – Sara Sauter (committee action) (20 minutes)
 - a. Succession Planning Phase I Response
 - b. SIB Self-Evaluation
- IX. 2022 – 2023 Internal Audit Workplan and Budgeted Hours – Sara Sauter (committee action) (30 minutes)
- X. Current Internal Audit Activities – Sara Sauter (committee action) (30 minutes)
- XI. 2022 -2023 SIB Audit Committee Meeting Schedule – Sara Sauter (committee action) (5 minutes)
- XII. 2022- 2023 SIB Audit Committee Membership – Sara Sauter (information) (5 minutes)
- XIII. Other – Next SIB Audit Committee Meeting
****PENDING APPROVAL***
Workforce Safety & Insurance Conference Room
1600 E Century Ave Suite 1, Bismarck, ND 58503
Tuesday, August 9, 2022 @ 2:30 PM
- XIV. 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
FEBRUARY 16, 2022, MEETING**

MEMBERS PRESENT: Yvonne Smith, PERS Board, Chair
Thomas Beadle, State Treasurer
Jon Griffin, External Representative

MEMBER ABSENT: Julie Dahle, External Representative
Dr. Rob Lech, TFFR Board, Vice Chair

STAFF PRESENT: Connie Flanagan, CFO/COO
Jayme Heick, Retirement Programs Specialist
Missy Kopp, Exec Assistant
Jan Murtha, Exec Dir
Matt Posch, Investment/Compliance Officer
Sara Sauter, Suprv of Internal Audit
Dottie Thorsen, Internal Auditor
Dr. Paul White, Chief Risk Officer
Yerouel Zamba, Accounting Intern

GUESTS : Dean DePountis, Attorney General's Office

CALL TO ORDER:

Ms. Smith called the State Investment Board (SIB) Audit Committee meeting to order at 2:35 p.m. on Wednesday, February 16, 2022, at Workforce Safety & Insurance, 1600 E Century Ave., Bismarck, ND.

The following Audit Committee members were present representing a quorum; Treasurer Beadle, Mr. Griffin, and Ms. Smith

AGENDA:

The agenda was considered for the February 16, 2022, meeting.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY MR. GRIFFIN AND CARRIED BY A VOICE VOTE TO APPROVE THE AGENDA FOR THE FEBRUARY 16, 2022, MEETING AS DISTRIBUTED.

AYES: TREASURER BEADLE, MR. GRIFFIN, AND MS. SMITH

NAYS: NONE

MOTION CARRIED

ABSENT: MS. DAHLE AND DR. LECH

MINUTES:

IT WAS MOVED BY MR. GRIFFIN AND SECONDED BY TREASURER BEADLE AND CARRIED BY A VOICE VOTE TO ACCEPT THE NOVEMBER 16, 2021, MINUTES AS DISTRIBUTED.

AYES: MR. GRIFFIN, TREASURER BEADLE, AND MS. SMITH

NAYS: NONE

MOTION CARRIED

ABSENT: MS. DAHLE AND DR. LECH

AUDIT PLANNING CYCLE:

Ms. Sauter provided education on the audit planning cycle. Internal Audit (IA) provides an independent and objective assessment of agency operations. IA improves effectiveness and efficiencies by assessing controls, reviewing processes, and working with divisions to find solutions. Ms. Sauter reviewed IA responsibilities, types of auditors, and the risk-based auditing process.

EXECUTIVE LIMITATIONS/STAFF RELATIONS:

Ms. Murtha introduced new staff who have joined RIO since the last Audit Committee meeting. RIO staff have been participating in a strategic planning process with NDIT. All RIO staff have or are scheduled to participate in Crucial Conversations training in partnership with WSI. RIO completed its move to the WSI building in November. The Pension Administration Project is in the contract negotiation phase. The Executive Steering Committee may issue a notice of award at the conclusion of the contract negotiations. The consultant for the Legacy and Budget Stabilization Fund Advisory Board RFP was issued in January. Finalists will be presented to the Advisory Board at the February meeting.

SECOND QUARTER AUDIT ACTIVITIES:

Ms. Sauter provided an update on IA activities during the second quarter. The work plan was altered because of several events that occurred during the first and second quarter of 2021-22 including resignations and retirements of several staff members. The Executive Limitations Audit has been completed and the results will be reported to the Committee at this meeting. IA provided external support to CliftonLarsonAllen for the Annual Financial Audit and the GASB 68 Census Data Audit. After Committee discussion in August about SIB governance, the Committee asked the Supervisor of IA to develop an onboarding process for new SIB members, to develop an education plan for the Board, and a draft charter for a new standing Governance and Policy Review Committee.

IA completed Phase I of Succession Planning for RIO. IA reviewed the vacated positions to ensure proper documentation of their responsibilities. The responsibilities were classified by function and forwarded to RIO management to assign to the newly organized positions. IA reviewed the job descriptions and duties for the newly organized position to compare the new job duties to the retired positions and found no omissions. IA met with the executive staff to document the risks for the programs at RIO. IA made four recommendations: documented succession planning for all executive staff, document a plan for the agency and each program if the top two positions were to leave the organization simultaneously, evaluate the purpose and duties of positions as they become vacant, and review the agency’s staffing needs on a biannual basis.

IT WAS MOVED BY MR. GRIFFIN AND SECONDED BY TREASURER BEADLE AND CARRIED BY A VOICE VOTE TO ACCEPT THE SECOND QUARTER AUDIT ACTIVITIES REPORT.

AYES: TREASURER BEADLE, MR. GRIFFIN, AND MS. SMITH

NAYS: NONE

ABSENT: MS. DAHLE AND DR. LECH

MOTION CARRIED

EXECUTIVE LIMITATIONS AUDIT:

IA completed the annual review of the Executive Director’s (ED) level of compliance with the SIB Governance Manual Executive Limitations policies for 2021. IA is sufficiently satisfied that the ED was in compliance with SIB Governance Manual Executive Limitations Policies A-1 through A-11 during calendar year 2021.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY MR. GRIFFIN AND CARRIED BY A VOICE VOTE TO ACCEPT THE EXECUTIVE LIMITATIONS AUDIT REPORT

AYES: MR. GRIFFIN, TREASURER BEADLE, AND MS. SMITH

NAYS: NONE

ABSENT: MS. DAHLE AND DR. LECH

MOTION CARRIED

CURRENT AUDIT ACTIVITIES:

Ms. Sauter provided an update on current IA activities. The following audits are in progress: Cash Management and Rebalancing Audit, Executive Limitations Audit, Internal Control Assessment, RIO Policy Manual Update, Pension Administration Software, and Succession Planning. The Supervisor of IA continues to work with the ED on developing a standing Governance and Policy Review Committee for the SIB, developing an onboarding process for new Board members, and an annual SIB education plan. IA administered a Board self-assessment evaluation for the SIB.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY MR. GRIFFIN AND CARRIED BY A VOICE VOTE TO ACCEPT THE CURRENT AUDIT ACTIVITIES REPORT.

AYES: TREASURER BEADLE, MR. GRIFFIN, AND MS. SMITH

NAYS: NONE

ABSENT: MS. DAHLE AND DR. LECH

MOTION CARRIED

OTHER:

The next Audit Committee meeting is scheduled for Wednesday, May 11, 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 4:17 p.m.

Respectfully Submitted:

Ms. Yvonne Smith, Chair
SIB Audit Committee

Missy Kopp
Recorder



North Dakota Retirement and Investment Office - Audit Committee May 10, 2022

2022 Financial Audit Kick-off Presentation

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 RIO's financial statements as of June 30, 2022
- Audit of TFFR's GASB 68 schedules as of June 30, 2022
- Report on Internal Controls and Compliance (in accordance with *Government Auditing Standards*)
- Written Communications with the Board



Work Plan

Phased Approach

- Planning
- Internal control
- Employer census data testing
- Substantive testing and reporting

Significant Financial Audit Areas

- Investments
- Contributions
- Benefit payments
- Actuarial data



Significant Financial Audit Areas – Investments

Understanding of internal controls

- Walkthroughs
 - Reconciliation procedures
 - Initial due diligence and on-going monitoring
 - Compliance monitoring
- Review custodial bank's SSAE 18/SOC 1 report

Substantive procedures

- Confirmation of custodial and non-custodial investments
- Price testing of equity and fixed income securities
- Review of audited financial statements and roll-forwards of non-custodial (alternative) investments



Significant Financial Audit Areas – Contributions

Understanding of internal controls

- Review of internal audit procedures and reports
- Walkthroughs of contribution and purchase of service processes
- Test of controls over the contributions process

Substantive procedures

- Reconciliation of contributions from general ledger to subsidiary ledger
- Confirmation of contributions with employers
- Analytical procedures including data analytics



Significant Financial Audit Areas – Benefit Payments

Understanding of internal controls

- Review of internal audit procedures and reports
- Walkthroughs of benefit payments processes; separate walkthroughs for disability, survivor, regular retirement and refund processes
- Test of controls over the benefit payment processes

Substantive procedures

- Reconciliation of benefit payments from general ledger to subsidiary ledger
- Analytical procedures including data analytics



Significant Financial Audit Areas – Actuarial Data

AU section 500.08 - Use of a Management Specialist

- Evaluate the competence, capabilities and objectivity of the specialist
 - Confirm actuaries' independence and accreditation
 - Prior experience with the actuaries
- Obtain an understanding of the work of the specialist
 - Review the nature, scope and objectives of the work of the specialist
- Evaluate the appropriateness of the work of the specialist
 - Review of the actuary report and compare key assumptions to pension and actuarial industry standards
 - Review of independent actuarial studies
- Additional testing specific to GASB 67/68



Significant Financial Audit Areas – Actuarial Data

AU section 500.08 - Use of a Management Specialist

- Census Data
 - Leverage data analytics performed over contributions and benefit payments to test the active and retiree census data for completeness and accuracy.
 - Select a sample of employers and test for completeness and accuracy of the active member census data.

Utilize an independent actuary to evaluate the sufficiency and appropriateness of TFFR'S actuarial valuation in accordance with AU-C 620 – Using the Work of an Auditor's Specialist.



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

- 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'



Information Technology

- General control areas that will be reviewed include:
 - Logical access controls
 - Application development and change control procedures
 - Business continuity planning
 - System integration
 - Benefit payment calculations
 - Member data



Timing of Work

KEY MILESTONES	DATE
Planning	May 2022
Understanding and Testing of Internal Controls	May 2022 – August 2022
Census Data Testing	July - September 2022
Substantive Procedures	August - September 2022
Final Audit Reports	October – November 2022



Trustee Fiduciary Duties

- ***Duty of Loyalty*** – The obligation to act for the exclusive benefit of the plan participants and beneficiaries
- ***Duty of Care*** – The responsibility to administer the plan efficiently and properly
- ***Duty of Prudence*** – The obligation to act prudently in exercising power or discretion over the interests that are subject to the fiduciary relationship.



Fiduciary Responsibility

- The presence of an effective audit committee encourages staff to increase the level of care in preparing financial statements
- The presence of an audit committee can result in staff being more attentive to how money was spent by reviewing pension system spending patterns
- The audit committee can put more focus on risk management and internal controls
- Provides another “set of eyes” ensuring reports are understandable, moving the reports from “jargon” to information
- Enhances credibility (financial statements, internal audit, CFO and finance departments)
- Ensures things get done



Fiduciary Responsibility (cont'd)

- Assess annual audit implications and approve action plans to strengthen performance
- Establish and monitor a system to ensure that the organization is in compliance with all relevant financial laws and regulations
- Approve non-routine contractual obligations as defined by approved board expenditure authorization policies
- Establish adequate risk management mechanisms



Discussion of Risks

- The Committee's views about the risks of fraud
- Does the Committee have knowledge of any fraud or suspected fraud affecting the entities?
- Does the Committee have an active role in oversight of the entities' assessment of the risks of fraud and the programs and controls established to mitigate those risks?
- Other risks



Questions



Paul B. Niedermuller, CPA
Principal
Paul.Niedermuller@claconnect.com
303-439-6053

Tonia N. Shultz
Senior
Tonia.Shultz@claconnect.com
410-308-8129



CLAAconnect.com



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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



MANAGER PROCESS 1.0

North Dakota Retirement & Investment

Manager Selection Process Overview

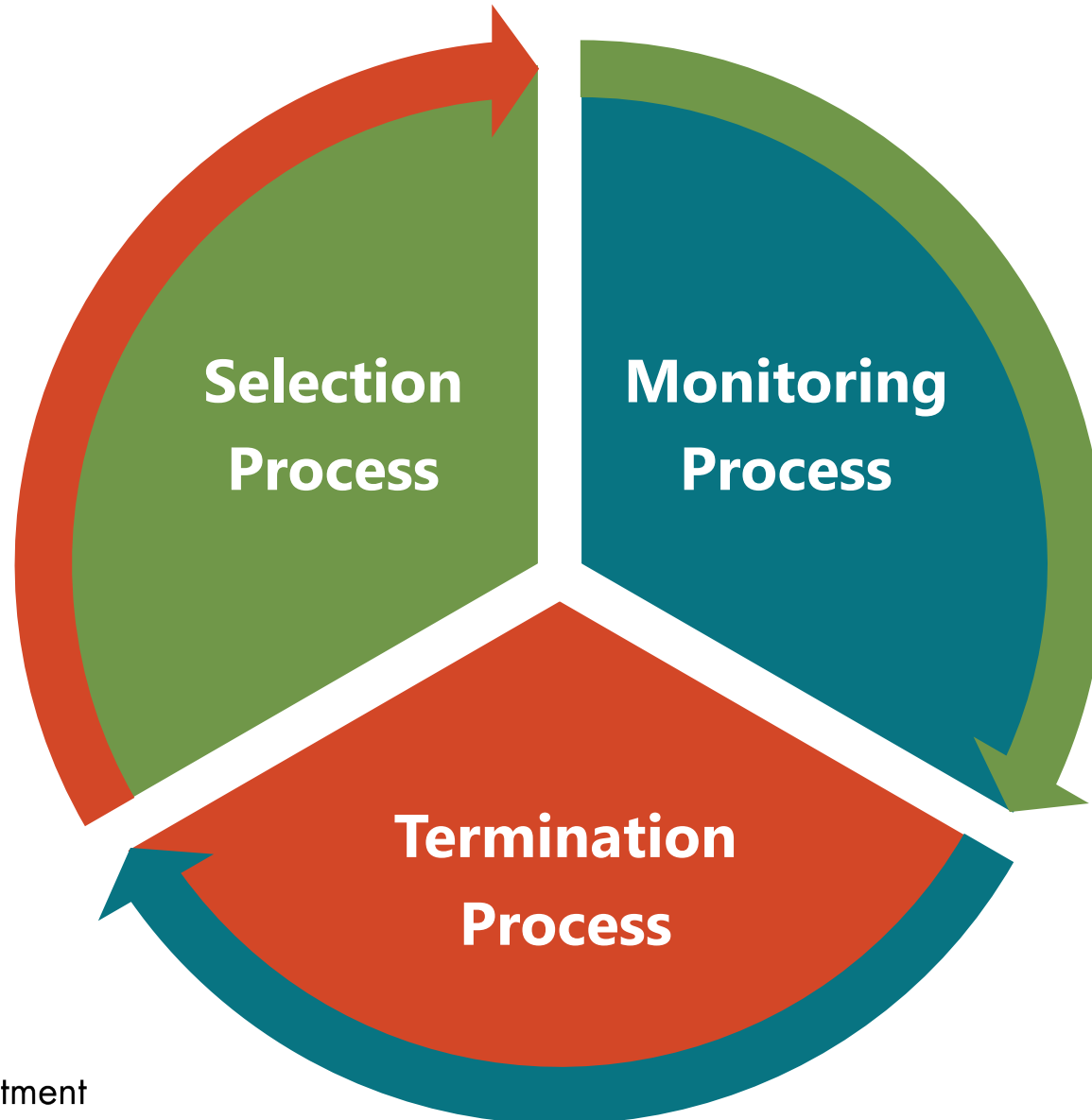
Scott M Anderson, CFA

May 10, 2022

NORTH
Dakota
Be Legendary.

Retirement & Investment

MANAGER LIFECYCLE



A GOOD MANAGER

MANAGER CAPABILITIES

IMPACT TO FUND

Talent

Absolute Risk And Return

Ownership & Compensation

Active Return And Risk

Locations

Incremental Impact To Active Return And Risk

Firm Size (Mandate Dependent)

Risk Factor Exposure And Risk

Assets Under Management

Non-linear Exposure And Risk (Greeks)

Investment Strategy/Philosophy

Benchmark And Fit

Source Of Risk And Return

Upside And Downside Returns

Organization Structure

Liquidity Impact

Max Mandate Size

Private Market Metrics (TVPI, IRR, Etc.)

Operations

Portfolio Passive And Active Correlations

Headline Risks

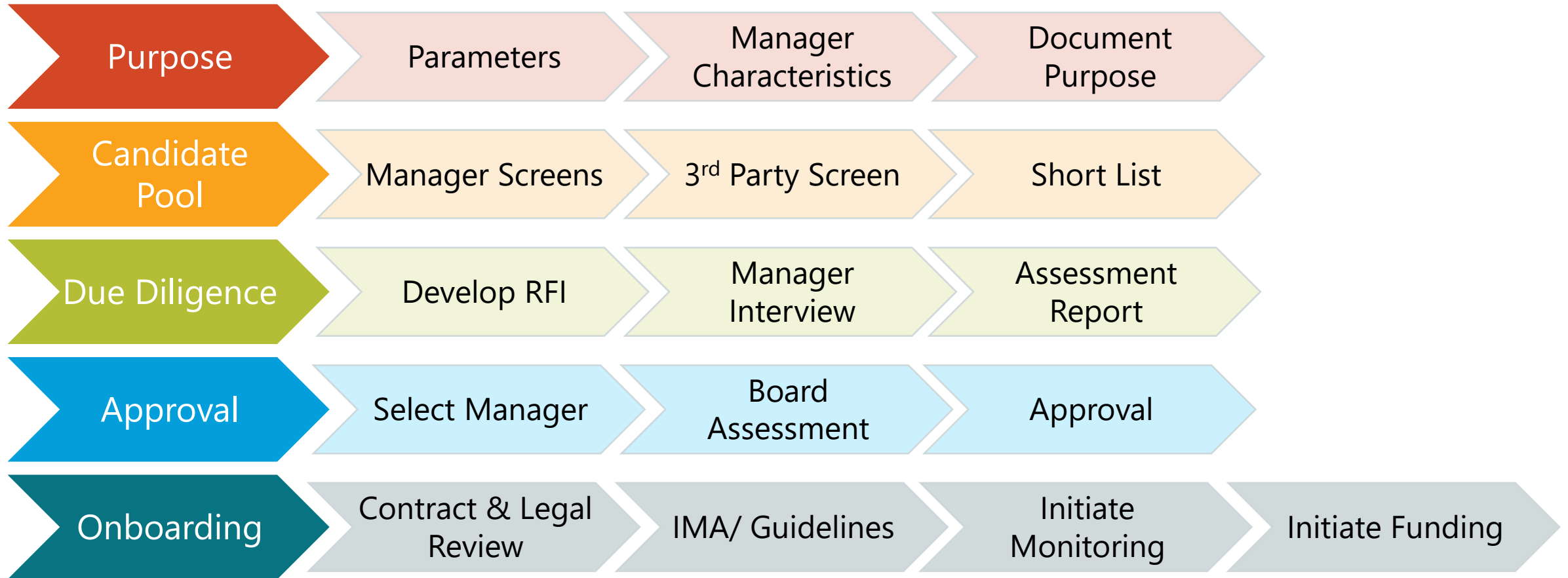
Pacing And Commitment

Intellectual Property/Knowledge Transfer

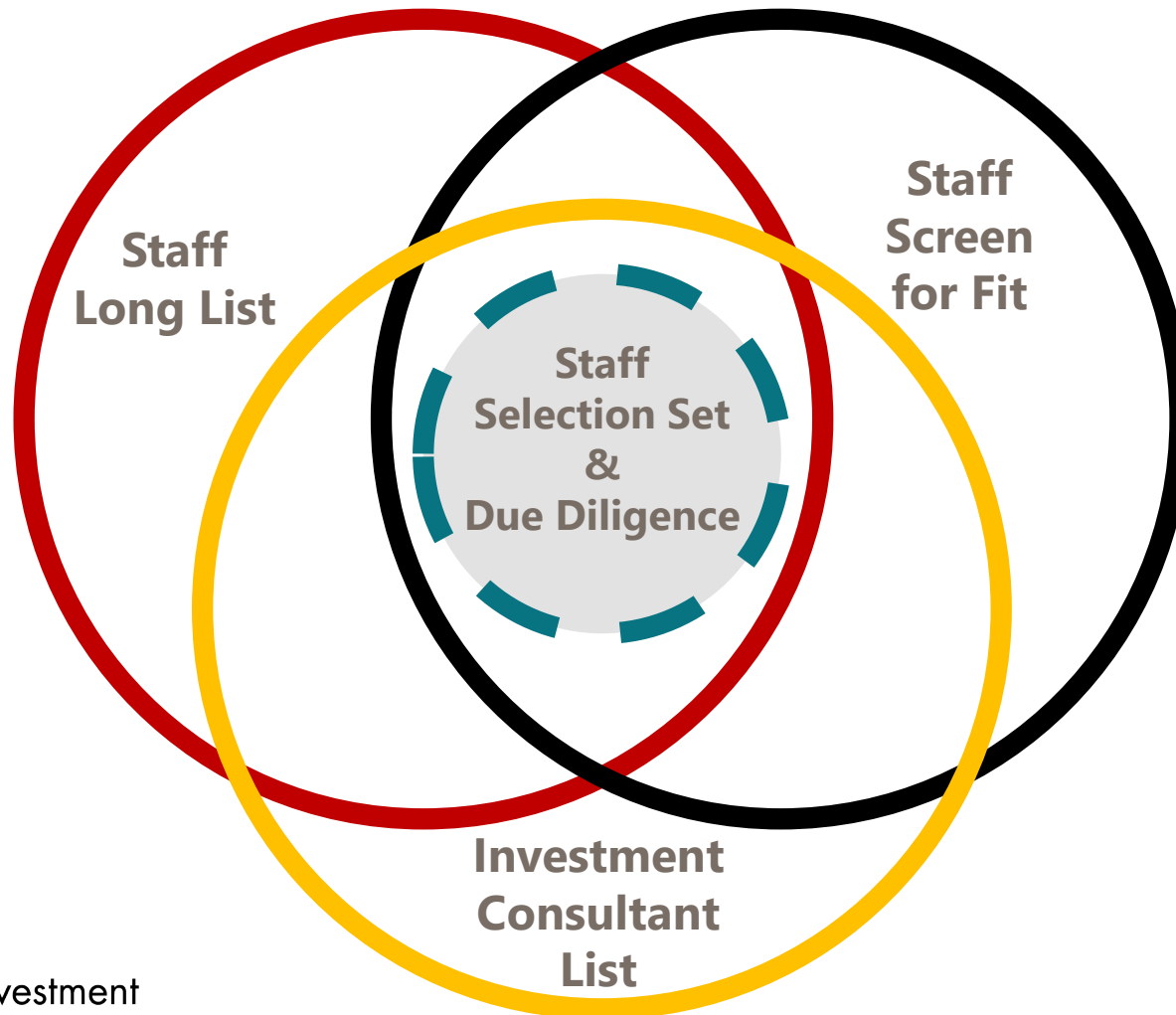
Cost

MANAGER SELECTION PROCESS

ACTIVITIES & TASKS



NARROW THE FIELD





MANAGER PROCESS 1.0

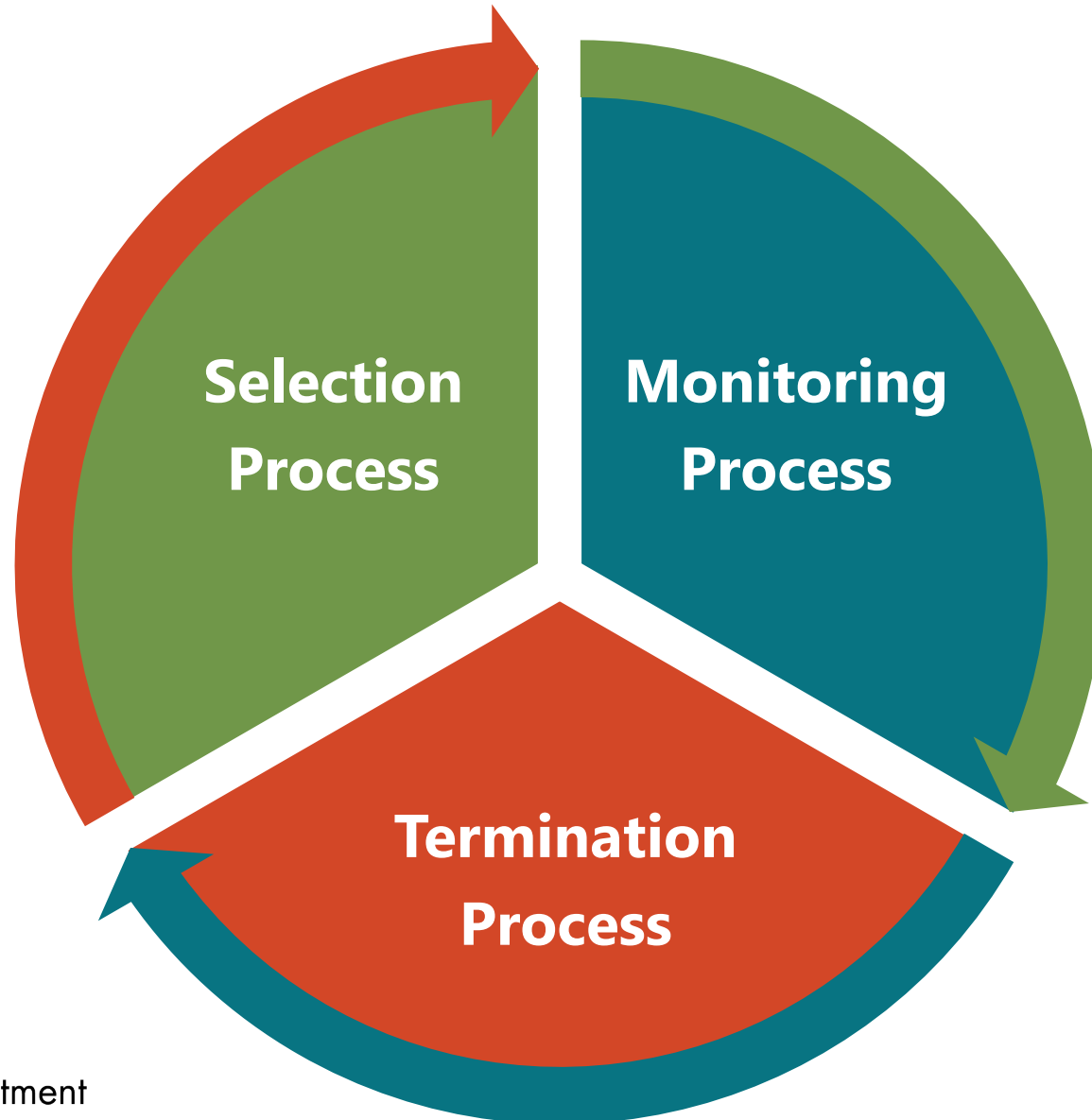
North Dakota Retirement & Investment

Appendix 1

NORTH
Dakota
Be Legendary.

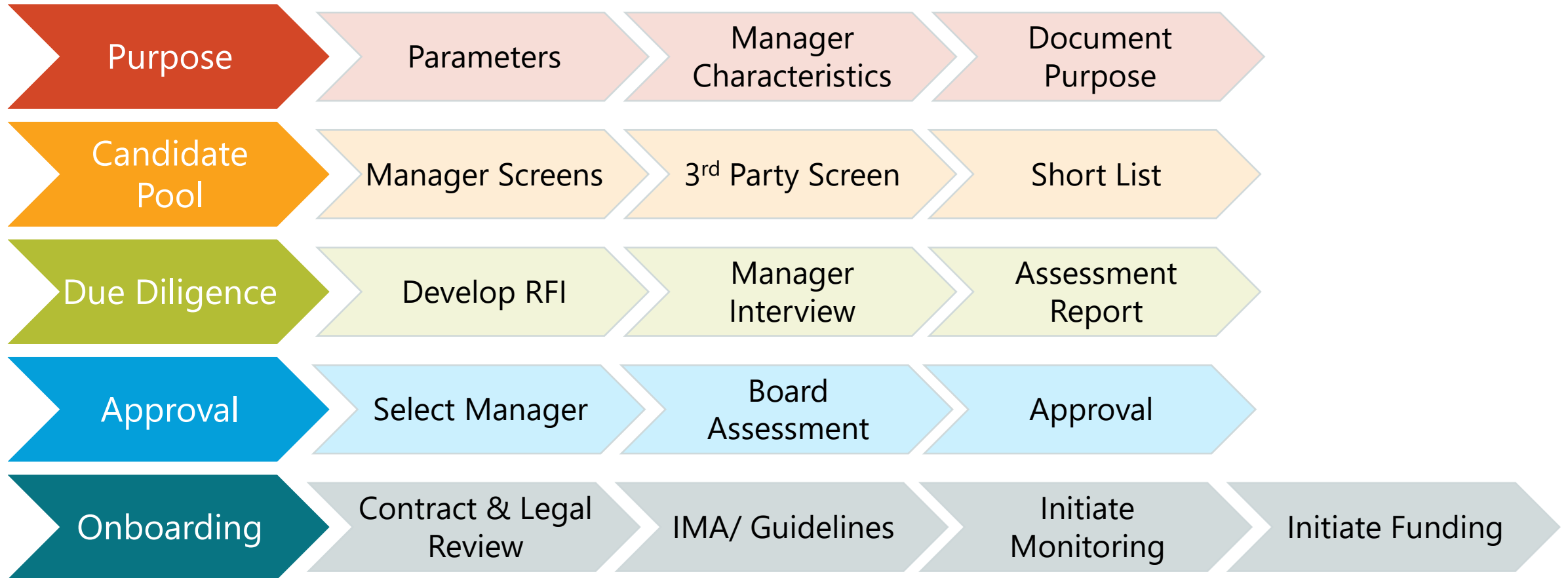
Retirement & Investment

MANAGER LIFECYCLE



MANAGER SELECTION PROCESS

ACTIVITIES & TASKS



MANAGER SELECTION PROCESS



Task	Description	Input	Output	Responsible
Determine need for portfolio	Style (investment philosophy/strategy), portfolio construction impact Identify manager benchmark	Portfolio review (quantitative and qualitative)*	Portfolio impact analysis	Risk & Funds Management
Conduct preliminary research on asset class/strategy	Preliminary research on asset class and manager universe	Staff research, databases (i.e. eVestment)	Preliminary candidate list & research on asset class	Risk & Funds Management
If terminating a manager; review manager to be terminated	Review terminated manager. Identify termination impact (risk and return) to the portfolio	Terminated Manager Report	Portfolio impact analysis	Risk & Funds Management

MANAGER SELECTION PROCESS



Task	Description	Input	Output	Responsible
Identify quantitative targets	May include, absolute and excess returns, tracking error, standard deviation, factor exposure, upside/downside, correlation, other benchmark comparative metrics, "Greeks", private market performance metrics, liquidity metrics, pacing targets, AUM growth	Portfolio impact analysis, preliminary research	Quantitative parameters	Risk & Funds Management
Identify qualitative targets	Firm team size, firm AUM, min & max AUM size (strategy), investment team size, operations team, key personnel, investment philosophy, organizational structure, ownership and compensation structure	Preliminary research	Qualitative parameters	Funds Management

MANAGER SELECTION PROCESS



Task	Description	Input	Output	Responsible
Produce candidate profile for search	1-2 page memo that documents parameters	Quantitative and qualitative parameters	Candidate Profile	Funds Management
Notify in-state candidates about new manager search	Notify Bankers Association and largest five North Dakota Banks	Candidate profile	Notice to ND managers	Funds Management & Outreach Coordinator

MANAGER SELECTION PROCESS



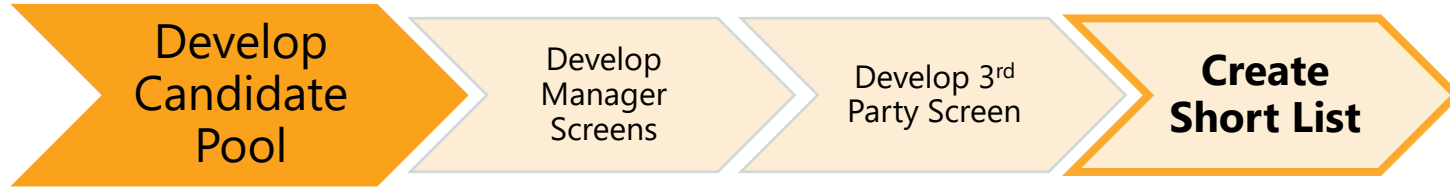
Task	Description	Input	Output	Responsible
Conduct quantitative screen on managers	Implement screen using data from Candidate profile	Candidate profile	RIO short list	Risk and Funds Management
Conduct qualitative screen on remaining managers	Implement screen using data in Candidate profile	Candidate profile	RIO short list	Risk and Funds Management

MANAGER SELECTION PROCESS



Task	Description	Input	Output	Responsible
Select approved third party consultant to assist with search	Select third party consultant based on asset class specialty	Approved list/team selection	Consultant selected	Investment Team
Initiate search by consultant	Provide Candidate Profile document to consultant and hold kick-off call to review, if available provide consultant with RIO's short list	Candidate profile/kick off call	Short list	Investment Team

MANAGER SELECTION PROCESS



Task	Description	Input	Output	Responsible
Compare and contrast lists	Compare consultants list of managers with RIO's candidate list (selection depends on search criteria)	RIO & 3 rd Party names	Aggregated manager list	Investment Team
Construct list of top managers	List of top managers	Aggregated manager list	Top managers	Investment Team

MANAGER SELECTION PROCESS



Task	Description	Input	Output	Responsible
Develop and send RFI to top candidates	Develop set of asset class and strategy specific questions. Also, include standard set of due diligence questions (organization, performance, compliance, strategy, philosophy, key man, operations, terms etc.)	Preliminary asset class/manager research	Strategy specific RFI	Funds Management
Score RFI	Team reviews RFI, scores and selects top candidate managers for additional due diligence (onsite/in person)	RFI/Team Review	Top 3-5 candidates	Investment Team

MANAGER SELECTION PROCESS



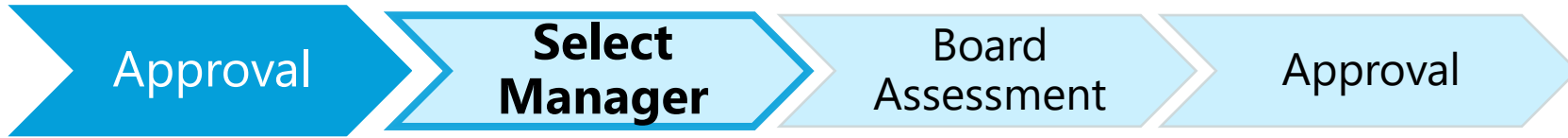
Task	Description	Input	Output	Responsible
Conduct in-person (if necessary) or video conference diligence	Find answers to manager specific questions. These questions can arise from the DDQ review, comparisons of top candidates etc.	Custom questions	Custom answers	Investment Team

MANAGER SELECTION PROCESS



Task	Description	Input	Output	Responsible
Produce onsite/video due diligence report (standardized report)	Organize and memorialize mngr. responses and any bespoke analyses.	Manager video call/onsite & bespoke analysis	Manager due diligence report	Investment Team
Consultant Opinion	Discuss with consultant thoughts on top managers	Manager due diligence reports	Consultant opinion	Investment Team
Develop scorecard	Summary comparison of the top three managers	Information from all due diligence, screening & consultant opinion	Summary scorecard	Investment Team

MANAGER SELECTION PROCESS



Task	Description	Input	Output	Responsible
RIO Approval	Discuss scorecard and rank managers.	Scorecard	Final RIO decision	Investment Team

MANAGER SELECTION PROCESS



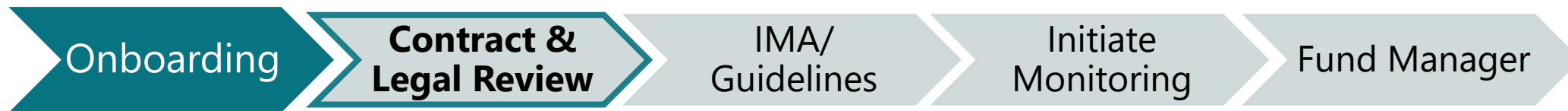
Task	Description	Input	Output	Responsible
Develop Board presentation	Generate a presentation for the board with abridged but relevant facts about the decision process and information about the final manager selected	All analysis produced for search	Presentation	Investment Team

MANAGER SELECTION PROCESS



Task	Description	Input	Output	Responsible
Present to Board	Staff makes a presentation to the Board and seeks approval for the new manager	Presentation	SIB approval	Investment Team

MANAGER SELECTION PROCESS



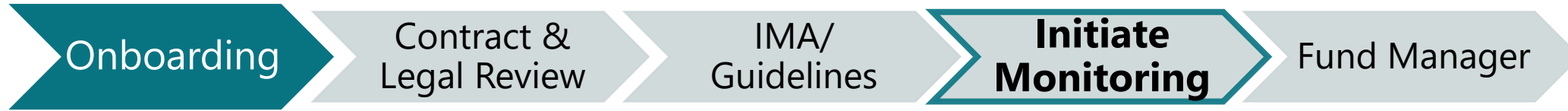
Task	Description	Input	Output	Responsible
Receive legal documents and materials from the investment manager	Gather all terms and documents from manager	Manager	Receipt of documents	Funds Management
Internal counsel reviews for ND legal items	Internal counsel reviews IMA/LPA for North Dakota specific legal issues	Legal documents	Comments & suggestions from counsel	Funds Management, Internal Counsel and Compliance
External counsel reviews	External counsel reviews IMA/LPA for legal issues and industry standard terms	Legal	Comments & suggestions from counsel	Funds Management, External Counsel and Compliance
Negotiate legal terms as needed	External, internal counsel, and Staff negotiates legal terms. (Track and approve any changes to the document set)	Legal documents and comments	Legally Approved Contract	Funds Management, External Counsel and Compliance

MANAGER SELECTION PROCESS



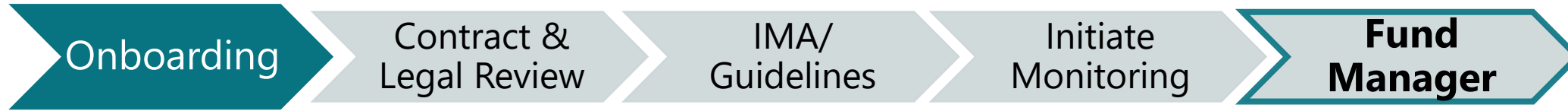
Task	Description	Input	Output	Responsible
Investment Team reviews and structures IMA/LPA for investment and operational requirements	Investment Team reviews terms, reporting, operations and other items to meet portfolio needs. Develops IMA that is approved by the Team	Team document review and edits	Appropriate guidelines and terms (Team sign off)	Investment Team
Create investment guidelines for strategy	Investment Team collaborates with investment manager to create appropriate investment guidelines	IMA/LPA and manager discussions	Approved investment guidelines	Investment Team
Send signed contract to manager	Finalize contract, sign and send to manager.	Final Contract	Signed Contract	Funds Management and Compliance

MANAGER SELECTION PROCESS



Task	Description	Input	Output	Responsible
Translate manager guidelines into performance, risk, and compliance tools	Input new guidelines into performance, risk and compliance tools. Tools utilized to flag breaches of guidelines	New manager guidelines and investment tools	Guidelines updated in team tools	Investment Team

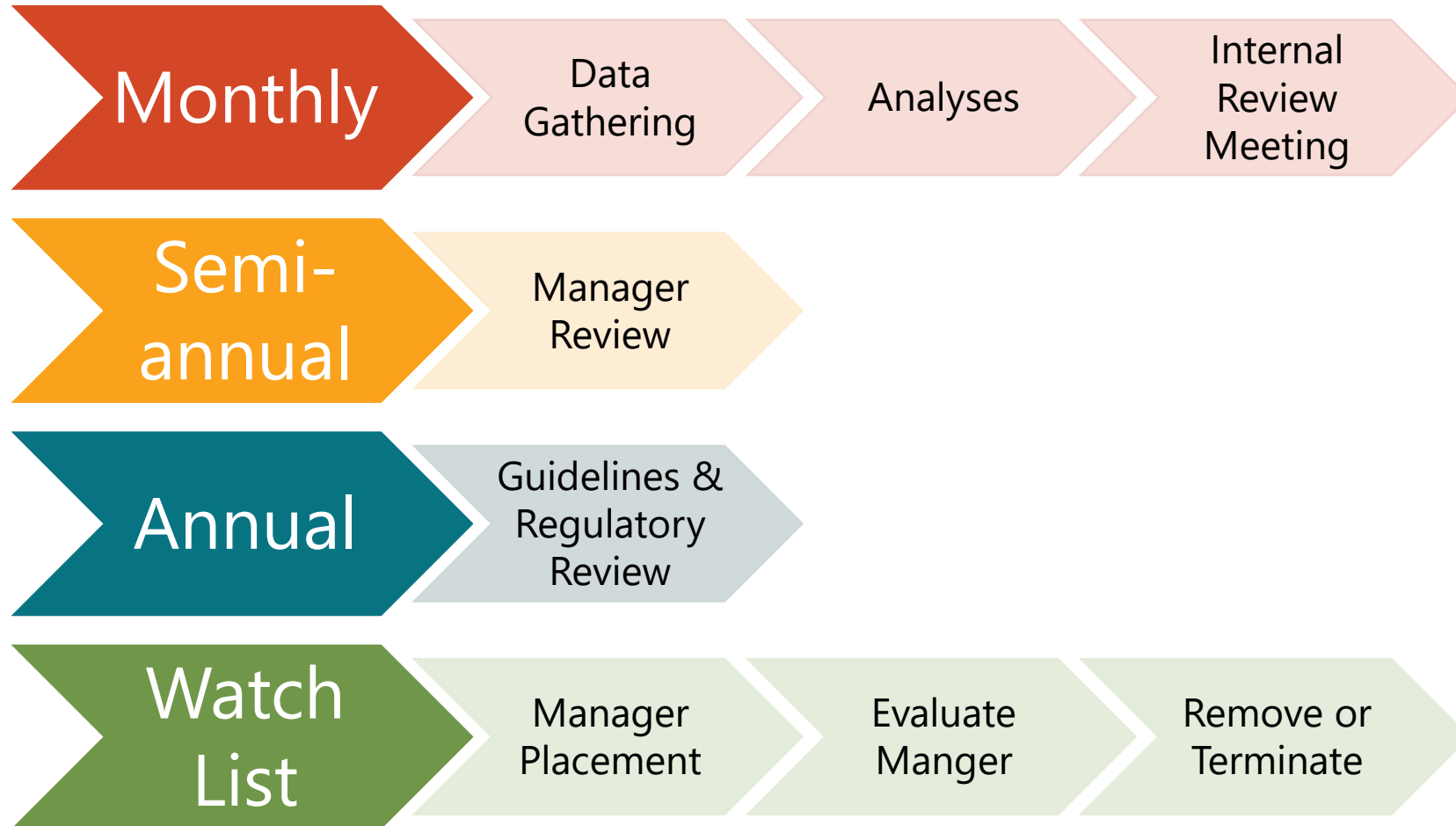
MANAGER SELECTION PROCESS



Task	Description	Input	Output	Responsible
Develop a transition and funding plan	Coordinate with Investments, Operations, transition manager, and investment manager to develop funding plan	Portfolio/liquidity review	Funding plan	Investment & Operations
Initiate Funding	Investments, Operations, transition manager funds new investment	Funding plan	Manager is funded	Investment & Operations

MANAGER MONITORING PROCESS

ACTIVITIES & TASKS



MANAGER MONITORING PROCESS

Monthly

Data Gathering

Analyses

Internal Review

Task	Description	Input	Output	Responsible
Manager reporting template	Team sends manager questionnaire. Manager completes with required information.	Template	Completed questionnaire	Investment Team
Monthly news screens	Set up google/Bloomberg alerts for news on any managers	Produce news screens	Key stories on managers	Investment Team
Investment consultant updates	Request consultants send updates on managers as they conduct ongoing monitoring	Consultant request	Consultant notes	Investment Team
eVestment Scorecards	Download eVestment manager scorecards	Staff sets up scorecards in eVestment	Manager scorecards	Funds Management and Risk
Standard manager reporting packages	Managers send standard reporting package	Request from manager	Standard reporting	Funds Management

MANAGER MONITORING PROCESS

Monthly

Data Gathering

Analyses

Internal Review

Task	Description	Input	Output	Responsible
Performance scorecard of all managers	Scorecards produced by Aladdin and eVestment, Callan. Swath of comparative statistics to compare managers. Risk metrics	Aladdin, eVestment, Callan	Peer Scorecard	Funds Management and Risk
Manager Tear Sheet	Review manager vs benchmark. Includes analyses over time, geographic, factor, market cap, etc. Risk metrics	Aladdin	Manager Tear Sheet	Funds Management and Risk
Portfolio construction review	Review risk and performance across the portfolio (i.e. Tracking error, exposures, information ratio/P&L)	Aladdin	Portfolio construction analyses	Funds Management and Risk
Market review (minimum monthly)	Review market research and economic forecasts	Third party vendors (i.e. BCA, Cornerstone Macro, and Lombard)	Market and economic data	Funds Management and Risk

MANAGER MONITORING PROCESS



Task	Description	Input	Output	Responsible
Monthly team meeting to review managers and portfolio	Review manager reports, scorecards, portfolio analyses to identify portfolio changes (these reviews may lead to manager watch list).	Manager reports, scorecards, portfolio analyses	Manager and portfolio decisions	Funds management and Risk

MANAGER MONITORING PROCESS

Semi-annual

Manager Review

Task	Description	Input	Output	Responsible
Semi annual investment meeting	Meet with the investment staff of managers on a semi-annual basis for portfolio review (one onsite in Bismarck). Review organizational changes, strategy performance, outlook, new themes and positions in the portfolio.	Schedule meetings	Manager meeting & meeting memo	Funds management & Administrative Assistant

MANAGER MONITORING PROCESS

Annual

Guidelines &
Regulatory Review

Task	Description	Input	Output	Responsible
Portfolio guidelines	Review portfolio guidelines to ensure they are consistent with RIO's needs.	IMA/LPA review	Necessary guidelines	Funds Management
Review regulatory filings	Review regulatory filings of managers including 13F, ADV, Annual financial statements.	Request from manager and or download from regulatory sites	Review of regulatory documents and regulatory memo	Funds Management and Compliance

MANAGER MONITORING PROCESS



Task	Description	Input	Output	Responsible
Staff identifies manager to be placed on watchlist	Staff identifies manager to be placed on the watchlist, and identifies action plan, and criteria to remove from watchlist	Monitoring reports, ongoing diligence, team discussion	Decision to place manager on watchlist	Funds Management & Risk
Memo to the Board which details action plan, and criteria to remove from watchlist	Staff drafts memo to the SIB detailing reasons for being placed on watchlist and action plan.	Monitoring reports, ongoing diligence, team discussion	Board memo	Funds Management & Risk Management
Present memo to Board	Staff presents watchlist memo to the Board, seeks SIB approval	Board Watchlist memo	SIB Approval	Investment Team

MANAGER MONITORING PROCESS



Task	Description	Input	Output	Responsible
Staff conducts increased scrutiny and diligence on manager	Follows action plan from watch list memo. Could include additional quantitative analysis (i.e. risk/return analysis to address watchlist concerns) or qualitative analysis (i.e. calls/meetings/review of documents)	Ongoing monitoring reports, bespoke analysis, Team discussion	Decision to remove from watchlist or terminate	Funds Management & Risk

MANAGER MONITORING PROCESS



Task	Description	Input	Output	Responsible
Generate memo to remove or terminate	Create memo for Board.	Manager analyses	Board memo	Funds Management & Risk
Present memo to the Board	Present memo to SIB and gain approval	Memo	SIB Approval	Funds Management & Risk

MANAGER TERMINATION PROCESS

ACTIVITIES & TASKS

Identify

Review
Watch List

Review
Breach/Event

Identify
Better
Opportunity

Initiate
Termination

Develop
Plan

Legal

Operations

Present to
SIB

Implement

Implement
Termination

MANAGER TERMINATION PROCESS



Task	Description	Input	Output	Responsible
Begin new manager search as result of Watchlist recommendation	See "Manager Selection Process"			

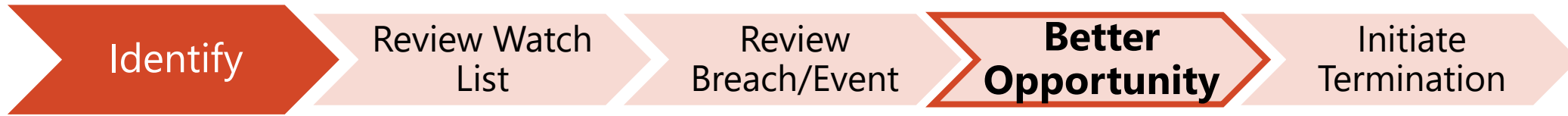
MANAGER TERMINATION PROCESS



Unanticipated events, significant drawdowns, loss of key individuals, breach of guidelines/indicators can lead to immediate review and termination

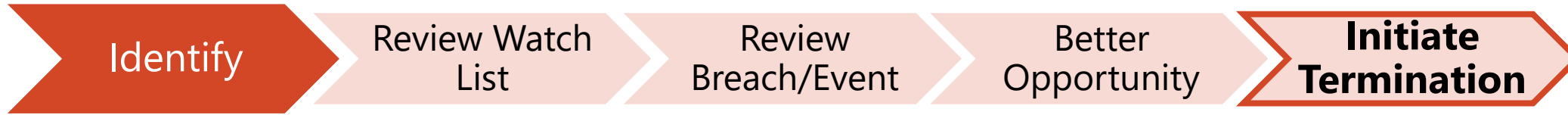
Task	Description	Input	Output	Responsible
Review breach	If key risk or performance indicators or guideline is breached conduct manager review. Action steps include manager calls/visits, quantitative and qualitative assessments	Quantitative data, qualitative assessment	Custom review/analysis	Fund Management & Risk
Review event (legal, organization, team, etc.)	For unforeseen events, conduct analysis of events. Action steps could include manager calls/visits, document reviews, quantitative and qualitative assessments, as necessary.	Calls, documents, additional information	Custom review/analysis	Investment Team
Decision: remain invested, watch list or terminate	Draft memo: Document reasons for watch list removal, termination or remain invested	Custom review/analysis	Memo	Investment Team
Begin new manager search	See "Manager Selection Process"			

MANAGER TERMINATION PROCESS



Task	Description	Input	Output	Responsible
Conduct regular peer reviews	Ongoing assessment of manager vs peers can lead to better investment strategies/opportunities	eVestment, Aladdin, other	Peer comparison	Investment Team
Evaluate cost of change	Assessment cost/benefit to transition to the new strategy	Manager calls, Staff review	Cost/benefits analysis	Investment Team
Decision: remain invested or terminate	Draft memo: Document reasons to remain invested or to begin new search	eVestment, Cost analysis / Peer comparison	Memo	Investment Team
Begin new manager search	See "Manager Selection Process"			

MANAGER TERMINATION PROCESS



Task	Description	Input	Output	Responsible
Notify manager	Discuss with manager reasons for termination	Termination memo	Manager is aware of termination and underpinning reasons	Investment Team

MANAGER TERMINATION PROCESS

Develop
Plan

Legal

Operations

Present to SIB

Task	Description	Input	Output	Responsible
Review legal documents including IMA	Review costs/penalties, terms, redemption schedule	IMA, LPA	Brief memo	Investments & Fiscal

MANAGER TERMINATION PROCESS



Task	Description	Input	Output	Responsible
Evaluate trading costs market impact/Construct redemption/transition plan	Evaluate liquidity of portfolio, and determine best time frame to liquidate	LPA, manager calls	Plan and timeframe to liquidate	Investments & Fiscal
Determine where to place capital	Determine where to place capital (Index, new manager if identified, likely manager search process underway or complete)	Investment team memos/ discussions	Where to hold capital	Investment Team
Identify transition manager	Identify transition manager if necessary	Investment Team approved vendors	Transition manager selected	Investments & Fiscal

MANAGER TERMINATION PROCESS



Task	Description	Input	Output	Responsible
Prepare formal termination memo	Prepare formal memo detailing reasons for termination and plan going forward	Investment / Operations memos/analyses	Formal Board memo	Investment Team
Present termination memo to the Board	Present to SIB reasons for termination and plans to replace, gain approval.	Formal Memo	Gain SIB approval	Investment Team

MANAGER TERMINATION PROCESS



Task	Description	Input	Output	Responsible
Implement transition plan	Coordinate with Investments, Operations, transition manager, and investment manager to begin transition process	Transition Plan/Transition manager	Transition capital	Investment & Operations

Manager Selection Checklist

Date Process Began: _____

Define Purpose: Develop Parameters

Date Completed	Signature	Task	Description	Responsibility	Input	Output	Location
		Determine need for portfolio	Style (investment philosophy/strategy), portfolio construction impact Identify manager benchmark	Risk Management & Funds Management	Portfolio Review (quantitative and qualitative)	Portfolio impact analysis	
		Conduct preliminary research on asset class / strategy	Preliminary research on asset class and manager universe	Risk Management & Funds Management	Staff research, databases (i.e. eVestment)	Preliminary candidate list/research on asset class	
		If terminating a manager; review manager to be terminated	Review terminated manager. Identify termination impact (risk and return) to the portfolio	Risk Management & Funds Management	Terminated Manager Report	Portfolio impact analysis	

Define Purpose: Identify Manager Characteristics

Date Completed	Signature	Task	Description	Responsibility	Input	Output	Location
		Identify quantitative targets	May include, absolute and excess returns, tracking error, standard deviation, factor exposure, upside/downside, correlation, other benchmark comparative metrics, "Greeks", private market performance metrics, liquidity metrics, pacing targets, AUM growth	Risk Management & Funds Management	Portfolio impact analysis, preliminary research	Quantitative parameters	
		Identify qualitative targets	Firm team size, firm AUM, min & max AUM size (strategy), investment team size, operations team, key personnel, investment philosophy, organizational structure, ownership and compensation structure	Funds Management	Preliminary research	Qualitative parameters	

Define Purpose: Document Search Purpose

Date Completed	Signature	Task	Description	Responsibility	Input	Output	Location
		Produce candidate profile for search	1-2 page memo that documents parameters	Funds Management	Quantitative and qualitative parameters	Candidate Profile	
		Notify in-state candidates about new manager search	Notify Bankers Association and largest five North Dakota Banks	Funds Management & Outreach Coordinator	Candidate profile	Notice to ND managers	

Manager Selection Checklist

Date Process Began: _____

Develop Candidate Pool: Develop Quantitative & Qualitative Screens

Date Completed	Signature	Task	Description	Responsibility	Input	Output	Location
_____	_____	Conduct quantitative screen on managers	Implement screen using data from Candidate profile	Risk Management & Funds Management	Candidate profile	RIO short list	
_____	_____	Conduct qualitative screen on managers	Implement screen using data from Candidate profile	Risk Management & Funds Management	Candidate profile	RIO short list	

Develop Candidate Pool: Develop 3rd Party Screen

Date Completed	Signature	Task	Description	Responsibility	Input	Output	Location
_____	_____	Select approved third party consultant to assist with search	Select third party consultant based on asset class specialty	Investment Team	Approved list/team selection	Consultant contracted	Tamale: Contracts
_____	_____	Initiate search by consultant	Provide Candidate Profile document to consultant and hold kick-off call to review, if available provide consultant with RIO's short list	Investment Team	Candidate profile/kick off call	Consultant Short list	

Develop Candidate Pool: Create Short List

Date Completed	Signature	Task	Description	Responsibility	Input	Output	Location
_____	_____	Compare and contrast lists	Compare consultants list of managers with RIO's candidate list (selection depends on search criteria)	Investment Team	RIO & Consultant short lists	Aggregated manager list	
_____	_____	Construct list of top managers	List of top managers	Investment Team	Aggregated manager list	Top managers list	

Due Diligence: Develop RFI & Manager Interview

Date Completed	Signature	Task	Description	Responsibility	Input	Output	Location
_____	_____	Develop and send RFI to top candidates	Develop set of asset class and strategy specific questions. Also, include standard set of due diligence questions (organization, performance, compliance, strategy, philosophy, key man, operations, terms etc.)	Funds Management	Preliminary asset class/manager research	Strategy specific RFI	
_____	_____	Score RFI	Team reviews RFI, scores and selects top candidate managers for additional due diligence (onsite/in person)	Investment Team	RFI/Team Review	Top 3-5 candidates	
_____	_____	Conduct in-person (if necessary) or video conference diligence	Get answers to manager specific questions. These questions can arise from the DDQ review, comparisons of top candidates etc.	Investment Team	Custom questions	Custom answers	

Manager Selection Checklist

Date Process Began: _____

Due Diligence: Assessment Report

Date Completed	Signature	Task	Description	Responsibility	Input	Output	Location
_____	_____	Produce onsite/video due diligence report (standardized report)		Investment Team	Manager video call/onsite & bespoke analysis	Manager due diligence report	
Organize and memorialize mngr. responses and any bespoke analyses.							
_____	_____	Consultant Opinion		Investment Team	Manager due diligence reports	Consultant opinion	
Discuss with consultant thoughts on top managers							
_____	_____	Develop scorecard		Investment Team	Information from all due diligence, screening & consultant opinion	Summary scorecard	
Summary comparison of the top three managers							

Approval: Select Manager, Board Assessment & Approval

Date Completed	Signature	Task	Description	Responsibility	Input	Output	Location
_____	_____	RIO Approval		Investment Team	Scorecard	Final RIO decision	
Discuss scorecard and rank managers.							
_____	_____	Develop Board presentation		Investment Team	All analysis produced for search	Board Presentation	L Drive: Board Materials
Generate a presentation for the board with abridged but relevant facts about the decision process and information about the final manager selected							
_____	_____	Present to Board		Investment Team	Presentation	SIB Approval	L Drive: Board Minutes
Staff makes a presentation the Board and seeks approval for the new manager							

Onboarding: Contract & Legal Review

Date Completed	Signature	Task	Description	Responsibility	Input	Output	Location
_____	_____	Receive legal documents and materials from the investment manager		Funds Management	Manager	Receipt of documents	Tamale: Contracts
Gather all terms and documents from manager							
_____	_____	Internal counsel reviews for ND legal items		Funds Management, Internal Counsel and Compliance	Legal documents	Comments & suggestions from counsel	Tamale: Contracts
Internal counsel reviews IMA/LPA for North Dakota specific legal issues							
_____	_____	External counsel reviews		Funds Management, External Counsel and Compliance	Legal documents	Comments & suggestions from counsel	Tamale: Contracts
External counsel reviews IMA/LPA for legal issues and industry standard terms							
_____	_____	Negotiate legal terms as needed		Funds Management, External Counsel and Compliance	Legal documents and comments	Legally Approved Contract	Tamale: Contracts
External, internal counsel, and Staff negotiates legal terms. (Track and approve any changes to the document set)							

Manager Selection Checklist

Date Process Began: _____

Onboarding: IMA & Guidelines

Date Completed	Signature	Task	Description	Responsibility	Input	Output	Location
_____	_____	Investment Team reviews and structures IMA/LPA for investment and operational requirements	Investment Team reviews terms, reporting, operations and other items to meet portfolio needs. Develops IMA that is approved by the Team	Investment Team	Team document review and edits	Appropriate guidelines and terms (Team sign off)	Tamale: Contracts
_____	_____	Create investment guidelines for strategy	Investment team collaborates with investment manager to create appropriate investment guidelines	Investment Team	IMA/LPA and manager discussions	Approved investment guidelines	Tamale: Contracts
_____	_____	Send Signed Contract to Manager	Finalize contract, sign and send to manager.	Funds Management and Compliance	Final Contract	Signed Contract	Tamale: Contracts

Onboarding: Initiate Monitoring & Fund Manager

Date Completed	Signature	Task	Description	Responsibility	Input	Output	Location
_____	_____	Translate manager guidelines into performance, risk, and compliance tools	Input new guidelines into performance, risk and compliance tools. Tools utilized to flag breaches of guidelines	Investment Team	New manager guidelines and investment tools	Guidelines updated in team tools	
_____	_____	Develop a transition and funding plan	Coordinate with Investments, Operations, transition manager, and investment manager to develop funding plan	Investments & Operations	Portfolio/liquidity review	Funding plan	
_____	_____	Initiate Funding	Investments, Operations, transition manager funds new investment	Investments & Operations	Funding plan	Manager is funded	

Manager Monitoring Checklist: Watch List

Manager: _____

Date Process Began: _____

Watch List: Manager Placement

Date Completed	Signature	Task	Description	Responsibility	Input	Output	Location
		Staff identifies manager to be placed on watchlist		Funds Management & Risk Management	Monitoring reports, ongoing diligence, team discussion	Decision to place manager on watchlist	
Staff identifies manager to be placed on the watchlist, and identifies action plan, and criteria to remove from watchlist							
		Memo to the Board		Funds Management & Risk Management	Monitoring reports, ongoing diligence, team discussion	Board memo	L Drive: Board Materials
Details action plan, and criteria to remove from watchlist. Staff drafts memo to the SIB detailing reasons for being placed on watchlist and action plan							
		Present memo to Board		Investment Team	Board Watchlist memo	SIB Approval	L Drive: Board Minutes
Staff presents watchlist memo to the Board, seeks SIB approval							

Watch List: Evaluate & Remove or Terminate

Date Completed	Signature	Task	Description	Responsibility	Input	Output	Location
		Staff conducts increased scrutiny and diligence on manager		Funds Management & Risk Management	Ongoing monitoring reports, bespoke analysis, Team discussion	Decision to remove from watchlist or terminate	
Follows action plan from watch list memo. Could include additional quantitative analysis (i.e. risk/return analysis to address watchlist concerns) or qualitative analysis (i.e. calls/meetings/review of documents)							
		Generate memo to remove or terminate		Funds Management & Risk Management	Manager analyses	Board memo	L Drive: Board Materials
Create memo for Board.							
		Present memo to Board		Funds Management & Risk Management	Memo	SIB Approval	L Drive: Board Minutes
Present memo to SIB and gain approval							

Manager Termination Checklist

Manager: _____

Date Process Began: _____

Identify: Review Watch List

Date Completed	Signature	Task	Description	Responsibility	Input	Output	Location
_____	_____	Begin new manager search as result of Watchlist					
See "Manager Selection Process"							

Identify: Review Breach/Event

Date Completed	Signature	Task	Description	Responsibility	Input	Output	Location
_____	_____	Review breach		Risk Management & Funds Management	Quantitative data, qualitative assessment	Custom review/analysis	
If key risk or performance indicators or guideline is breached conduct manager review. Action steps include manager calls/visits, quantitative and qualitative assessments							
_____	_____	Review event (legal, organization, team, etc.)		Investment Team	Calls, documents, additional information	Custom review/analysis	
For unforeseen events, conduct analysis of events. Action steps could include manager calls/visits, document reviews, quantitative and qualitative assessments, as necessary.							
_____	_____	Decision: remain invested, watch list or terminate		Investment Team	Custom review/analysis	Memo	
Draft memo: Document reasons for watch list removal, termination or remain invested							
_____	_____	Begin new manager search					
See "Manager Selection Process"							

Identify: Better Opportunity

Date Completed	Signature	Task	Description	Responsibility	Input	Output	Location
_____	_____	Conduct regular peer reviews		Investment Team	eVestment, Aladdin, other	Peer comparison	
Ongoing assessment of manager vs peers can lead to better investment strategies/opportunities							
_____	_____	Evaluate cost of change		Investment Team	Manager calls, Staff review	Cost/benefits analysis	
Assessment cost/benefit to transition to the new strategy							
_____	_____	Decision: remain invested or terminate		Investment Team	eVestment, Cost analysis / Peer comparison	Memo	
Draft memo: Document reasons to remain invested or to begin new search							
_____	_____	Begin new manager search					
See "Manager Selection Process"							

Identify: Initiate Termination

Date Completed	Signature	Task	Description	Responsibility	Input	Output	Location
_____	_____	Notify manager		Investment Team	Termination memo	Manager is aware	
Discuss with manager reasons for termination. Manager is aware of termination and underpinning reasons							

Manager Termination Checklist

Manager: _____

Date Process Began: _____

Develop Plan: Legal

Date Completed	Signature	Task	Description	Responsibility	Input	Output	Location
		Review legal documents including IMA		Investments & Fiscal	IMA, LPA	Brief memo	
Review costs/penalties, terms, redemption schedule							

Develop Plan: Operations

Date Completed	Signature	Task	Description	Responsibility	Input	Output	Location
		Evaluate trading costs market impact/Construct redemption/transition plan		Investments & Fiscal	LPA, manager calls	Plan and timeframe to liquidate	
Evaluate liquidity of portfolio, and determine best time frame to liquidate							
		Determine where to place capital		Investment Team	Investment Team memos/ discussions	Where to hold capital	
Determine where to place capital (Index, new manager if identified, likely manager search process underway or complete)							
		Identify transition manager		Investments & Fiscal	Investment Team approved vendors	Transition manager contracted	Tamale: Contracts
Identify transition manager if necessary							

Develop Plan: Present to SIB

Date Completed	Signature	Task	Description	Responsibility	Input	Output	Location
		Prepare formal termination memo		Investment Team	Investment / Operations memos/analyses	Formal Board memo	L Drive: Board Materials
Prepare formal memo detailing reasons for termination and plan going forward							
		Present termination memo to the Board		Investment Team	Formal Memo	Gain SIB approval	L Drive: Board Minutes
Team reviews RFI, scores and selects top candidate managers for additional due diligence (onsite/in person)							

Implement Termination

Date Completed	Signature	Task	Description	Responsibility	Input	Output	Location
		Implement transition plan		Investments & Operations	Transition Plan/Transition manager	Transition capital	
Coordinate with Investments, Operations, transition manager, and investment manager to begin transition process							

MEMORANDUM

TO: State Investment Board Audit Committee
FROM: Jan Murtha, Executive Director
DATE: May 5, 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. Including updates on the following topics:

1. Retirements/Resignations/FTE's/Temporary Assistance:

Additional updates regarding ongoing discussions with HRMS related to classification and reclassification requests will be provided at the meeting.

Employee Title	Status
Deputy ED – Chief Retirement Officer	Posted February 2022, closed 4/4/22. Initial Interviews to be scheduled in May. Final interviews will be arranged with TFFR Search committee.
Chief Fiscal Officer	Posting pending. Attempting to fill by June. Reclassification request was submitted to include Chief Operating Officer duties (CFO/COO) and increase grade. HRMS verbally denied the reclassification request on 4/14/22. RIO anticipates posting the position at the current grade and appealing the reclass decision once finalized. A formal final decision from HRMS is pending.
Legal Intern	Interviews Conducted March 2022. Offer has been accepted. Anticipated to fill this summer as part of UND Law School Externship Program. Anticipated term June 6 through July 22.
Investment #1	Classification approved 4/27/22, posting pending HRMS.
Investment #2	Classification approved 4/27/22, posting pending HRMS.
Investment #3	Classification approved 5/3/22, posting pending HRMS.
Investment #4	Classification approved, 5/3/22, posting pending HRMS.
Investment Reclassification Request #1	Reclassification of current Investment Analyst position to support new organization structure. Reclassification request is pending HRMS.
Accounting #1	Classification request, position posted, closed 5/2/22. Interviews pending.
Programs Coordinator	JDQ requirements currently under review.

2. Current Kick-Off Activities:

- **Legacy Fund Asset Allocation Study** – RIO with the assistance of State Procurement coordinated the procurement effort for a consultant to oversee this project on behalf of the Legacy and Budget Stabilization Fund Advisory Board (“Advisory Board”). RVK was awarded the contract and the Kick-off meeting with the Advisory Board occurred 4/8/22.
- **PAS Project** – The ESC awarded the vendor solution contract to Sagitec. Onsite formal project Kick-off meeting is scheduled for 5/16/22 & 5/17/22 with RIO and ITD staff.
- **Northern Trust Onsite** – As part of RIO’s strategic plan we are reviewing opportunities to increase collaboration and information flow with our custodian bank Northern Trust. An onsite visit with representatives from Northern Trust is scheduled for 5/19/22.

3. Open Records & Media Requests

- Between 2/13/22 to 4/13/22 The agency received and responded to 18 open records requests and 24 other comments or inquiries. These include requests or comments received from both media and private individuals (provided to SIB at April meeting).

4. Email Accounts for Board Members (non-state employees)

- In ongoing efforts to improve cybersecurity, state email accounts will be provided to all SIB, TFFR, and committee members that are non-state employees.

5. Strategic Planning

RIO’s strategic planning presentation was shared as indicated below:

- Governor’s Office Presentation - 3/7/22
- Staff Presentation – 3/15/22
- TFFR Presentation – 3/24/22
- SIB Presentation – 3/25/22

The presentation may be found at: [SIB 3-25-22 \(nd.gov\)](#)

6. RIO Board & Committee Presentations – March 1 through May 31, 2022

Staff provided presentations to the following Boards and Committees during the above referenced time period. Please note that this does not include additional presentations provided to other SIB clients beyond the TFFR and Advisory (Legacy) Boards.

- **Special SIB – 3/3/22**
- **TFFR – 3/24/22**
- **SIB – 3/25/22**
- **Legacy Earnings Committee – 3/29/22**
- **Legislative Audit & Fiscal Review Committee – 3/31/22 (for questions only)**
- **SIB Executive Review Committee 4/6/22**
- **Advisory Board (Legacy) – 4/8/22**
- **SIB GPR Committee – 4/21/22**
- **TFFR – 4/21/22**

- **SIB – 4/22/22**
- **Government Finance Committee – 4/27/22**
- **SIB Executive Review Committee – 4/28/22**
- **Employee Benefits Programs Committee - 5/3/22**
- **SIB Audit Committee – 5/10/22 (scheduled)**
- **TFFR GPR Committee – 5/10/22 (scheduled)**
- **Executive Review Committee – 5/12/22 (scheduled)**
- **SIB GPR Committee – 5/18/22 (scheduled)**
- **SIB – 5/20/22 (scheduled)**

COMMITTEE ACTION REQUESTED: Information Only.

MEMORANDUM

TO: State Investment Board Audit Committee
FROM: Jan Murtha, Executive Director
DATE: May 5, 2022
RE: Executive Director Requests

Ms. Murtha requests the opportunity to share with the Audit Committee areas of improvement for agency operations learned through participation in the strategic planning, executive review, and internal governance review process and future requests for consideration and assistance from Internal Audit (IA) services. Specifically, efforts to improve efficiency and effectiveness in Board meetings as it relates to committee reports, and requests for IA's assistance in agency strategic planning and budget development relating to internal audit services. IA has included additional time for this as part of the proposed audit plan and Ms. Murtha would like to share information supporting the need for additional hours dedicated to this area for the committee's consideration.

COMMITTEE ACTION REQUESTED: Committee Discussion.

RETIREMENT AND INVESTMENT OFFICE
Internal Audit
2021-2022 3rd Quarter Audit Activities Report
January 1, 2022 – March 31, 2022

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 Services/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

• **Administration Manual Review**

The IA Supervisor, Executive Director, and Executive Assistant held meetings to discuss updating and revising the Administrative Manual for RIO. This will be an ongoing project.

• **Executive Limitation Audit**

On an annual basis, IA reviews the Executive Director'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 reviewed activities in 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 reviewed, re-evaluated, and revised the audit program accordingly for Executive Limitations during the 2021 audit.

The audit was completed and reported to SIB Audit Committee meeting on February 16, 2022. The final report was also presented to the SIB meeting on February 25, 2022.

• **Executive Review Committee**

The Committee requested IA's assistance in administering a Board self-assessment evaluation. The Committee reviewed the prior year questions as needed. The Supervisor of IA made suggested revisions and administered the self-assessment survey in the January/February timeframe. A Summary of the results was presented to the SIB meeting on February 25, 2022.

The Committee also annually evaluates the Executive Director of RIO. The Supervisor of IA provided requested assistance to help facilitate the surveys and committee meeting materials. The Committee is revising the format for the Executive Director's performance review. The Committee will meet at the beginning of April to discuss the questions and structure. It is expected that the survey will be sent out in April to board members to complete.

The Supervisor of IA also reviewed the last Staff Survey questions on the Executive Director. Revisions were made and the Survey was administered to RIO staff at the end of March. The staff survey is anonymous and administered through Survey Monkey.

- **External Audit Support**

IA attended a meeting of the Legislative and Fiscal Review Committee at the State Capital in March 2022. RIO's external auditor, CliftonLarsonAllen (CLA), presented information for the June 30, 2021 audit. Questions fielded by the Committee were answered by CLA.

- **SIB Board Governance Review**

The Supervisor of IA worked with the Executive Director on developing a Standing Governance and Policy Review Committee (GPR) for the SIB. The Supervisor of IA worked with the Executive Director and the SIB Board in the process of developing a charter of governance. The Charter includes the purpose of the Committee, key responsibilities, Committee composition and term limits for its members, meeting schedule, and authorization and limitation of power. The Executive Director presented the first reading of the GPR charter to the SIB Board in January of 2022 and a second reading in February. At the February meeting the Board approved the GPR Committee. At the March 25, 2022, SIB meeting, the Board appointed three members to serve. The three members appointed were Dr. Rob Lech (TFFR Board, Vice Chair), Jon Godfread (Insurance Commissioner), and Thomas Beadle (State Treasurer).

The Supervisor of IA will work with the Committee in the upcoming quarters as needed.

- **RIO Strategy Planning:**

RIO is undertaking the development of a comprehensive strategic plan by partnering with other state agencies who are leading such efforts. RIO 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. WSI has also offered to provide strategic planning guidance and assistance. IA staff participated in multiple discussions held in January, February, and March with other staff members and management on the future direction of the agency. The Executive Director gave a presentation to the SIB and TFFR Boards at the March meetings.

- **Succession Planning**

IA presented the Succession Planning Phase I report at the February 16, 2022, SIB Audit Committee meeting. The report contained the background for the audit, scope of the review, observations (details of the fieldwork completed in the first and second quarters), risks to RIO (Executive, Investments and Fiscal), conclusion, and recommendations.

IA had the following four recommendations: (1) Document 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, and (4) Review the agency staffing needs on a biannual basis to ensure that there is adequate staff to keep pace with agency's growth.

Succession Planning Phase II is in progress and includes documentation for onboarding, offboarding,

and access. IA is working with the fiscal division on this documentation.

Retirement Program Audit Activities

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

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 of 2021/22, 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 SIB Audit Committee at the November 2021 meeting.

In the third quarter, IA has set-up a matrix to monitor the corrections made by Retirement Services. Completion of corrections is anticipated by the end of the fourth quarter.

- **Benefit Payment Audit – Deaths**

IA continues to receive monthly electronic copies of CPAS deaths, Vital Statistic Reports of deaths, and weekly PBI death reports. IA has set-up files in the audit drive to deposit the reports for use in the 2022 audit of deaths.

In January 2022, IA audit reviewed and analyzed the PBI process and procedures with TFFR and determined that PBI appears to be detecting deaths in a timely manner. Information reviewed started at the end of October 2021 and continued through the end of December 2021.

- **TFFR Model 2 Partial Compliance Review**

Due to an error found in the Participant Data-Salary Verification Audit (May 2021), Retirement Services and IA had multiple discussions on the risk associated with Employers reporting to TFFR with this Model. The current PAS system validates the 11.75% member contribution. It does not validate the tax-deferred member contributions paid by the Employer or the tax-deferred member contributions withheld from the Members pay and remitted by the employer as a salary reduction. After the discussions with Retirement Services, it was determined that IA will request the employers who use the Partial Model to verify that salary and contributions are reported correctly to TFFR. IA is planning to request contracts and payroll records for one member from each employer and verify that the information reported to TFFR is correct.

Audit fieldwork will start during the fourth quarter of 2021/22. If errors are found during the review, the information will be forwarded to Retirement Services.

- **TFFR Employer Review**

An employer requested a review of salary for two individuals with Retirement Services. Retirement Services requested a meeting with IA to discuss the issue. This employer was one of the last compliance audits completed before IA's mission changed. IA attended meetings and provided a copy of the Audit Report, salary reconciliations, contracts, and payroll records. After reviewing the information provided by the employer to Retirement Services and comparing it with audit information, a decision was reached. Retirement Services sent a response to the employer.

- **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.

Audit fieldwork started the end of June 2021 and continued during the months of July and August 2021. IA was initially 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. Phases I and II were completed for May 2020.

The fieldwork for File Maintenance was suspended by IA due to the priority of the Succession Planning review. Audit fieldwork for File Maintenance resumed during the third quarter of 2022. However, the audit timeframe was adjusted to October 2021 due to the number of staff retirements and new staff hired after the first and during the second quarters 2021/22. IA also wanted to see what the duties were that RS staff performed after the agency reorganization.

IA is almost completed with Phases I, II, and III for October 2021. The Audit Work Summary with questions will be provided to Retirement Services within the next two weeks. The projected completion date is June 30, 2022.

- **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 third quarter, the Supervisor of IA participated by attending weekly meetings with RIO staff, NDIT, and Segal and completing assigned tasks during the negotiation process of the procurement process. The Executive Steering Committee awarded the vendor solution contract to Sagitec. The contract with Sagitec has been signed. The parties have scheduled an onsite "Kick-Off" meeting for Stage III with RIO staff for May 16 and 17 of 2022.

Administrative Activities

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

- **Records Retention**

The Contracts and Records Assistant is RIO's Record's Management Coordinator (CRA). IA has been working with the CRA in restructuring and updating Audit records to make them more accessible and easier for staff to manage and purge. Over the next months as time allows, IA will be writing a summary documenting IA and the audits completed since the inception of the Division in 1993.

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

IA staff and other RIO staff attended the training on Crucial Conversations – Tools for talking when the Stakes are high: The training offered a solution on how to identify the crucial conversations that are key to organizational, team, and interpersonal success.

MEMORANDUM

TO: Sara Sauter, Supervisor of Internal Audit
FROM: Jan Murtha, Executive Director
DATE: April 14, 2022
RE: Succession Planning - Phase I - Response to IA Recommendations

Internal Audit (IA) made 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.

I accept and concur with these recommendations and all 4 are implemented or in the process of being implemented on an ongoing basis. Recommendation 1 generally exists under the current governance structure, however both recommendations 1 and 2 will be updated or implemented subsequent to the 2023 Legislative session (anticipated by July 2023), as a result of any recommendations from the newly created SIB GPR committee and potential FTE and organization changes. Recommendations 3 and 4 were implemented prior to 2022 and will continue on an ongoing basis as part of the agency strategic planning process.

State Investment Board Evaluation
Executive Review Summary
February 23, 2022

Background

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

Scope

The evaluation is comprised of twenty-nine questions and consists of five categories for both the self-assessment and board assessment portions. The five categories in each section included: 1. board and staff roles, 2. board and committee structure, 3. board meetings, 4. policy making and reviews, and 5. financial management and investment practices. There were two open-ended questions at the end that asked for any other input for the evaluation and any recommendations for topics to be included in future evaluations. The evaluation was administered through Survey Monkey and results were reviewed by the Executive Review Committee. A four-point scale was used, with 4 – strongly agree, 3 – agree, 2 – disagree, and 1 – strongly disagree as the rating system. Ten out of twelve board members participated in the evaluation.

Results Summary

The average score of the self-assessment portion of the evaluation decreased from 3.67 in 2021 to 3.50 in 2022. All scores decreased from last year except for the question on being actively engaged in Board meetings. In the self-assessment section, Board members agreed they understand their legal duties and responsibilities of being a fiduciary and understand Board conduct. Areas of improvement also have been identified. With the challenges of the past year, Board members stated that the significant time to prepare for each meeting has become burdensome with other responsibilities that Board members have outside of serving on the Board. Overall comments included that the Executive Summary for Board meetings is appreciated as there is a lot of information to review and that establishing the Governance and Policy Review Committee will help with reviewing policies. Board members were also complimentary to staff on their presentations, board education, and willingness to answer questions.

The average score of the board assessment portion of the evaluation also decreased from 3.59 in 2021 to 3.43 in 2022. Similarly, all scores declined from last year, except for all Board members regularly attend Board meetings which had a slight increase. From a board level, board members felt that meetings were a good use of time and well-ran. All agreed the Board regularly reviews the financial, investment, and portfolio status. There were several areas identified for improvement. Comments included reviewing governance and bylaws more frequently; however, the establishment of the Governance and Policy Review Committee should help strengthen this area. Secondly, Board packets can be large so prioritizing information within them so the Board members can better prepare.

Overall, the general comments were positive. Comments included:

- The Board Self-Evaluation as a good tool for the Board.
- Appreciation of staff and all they do.
- The Board has weathered a rough patch but seems to be on the right track.
- Board members may feel a lack of clarity surrounding the decisions that need to be made especially with the in-state investing and Legacy Fund. That there are many unanswered questions, and the Board needs to get on the same page to before just doing something because they feel compelled to.

For the comparison of the self-assessment and board assessment, an area that the board may need more clarity in is what authority does the Board retain and what authority is delegated to staff. Similarly, reviewing policies and board governance is an area that could be strengthened; however, the establishment of the Governance and Policy Review Committee should assist in this area. Also, being adequately prepared for Board meetings, as comments stated it can be hard given the volume of materials contained in the board packets.

Overall, the SIB Board Self-Evaluation was positive and continues to show areas the Board wishes to improve on.

MEMORANDUM

TO: State Investment Board (SIB) Audit Committee

FROM: Sara Sauter, Supervisor of Internal Audit

DATE: May 10, 2022

SUBJECT: 2022 - 2023 Internal Audit Workplan

The following information details the proposed workplan for Internal Audit for 2022 – 2023. 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, consulting, and quality assurance activities during fiscal year 2023:

EXECUTIVE LIMITATION AUDIT:

On an annual basis, the Executive Director'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 process, Internal Audit facilitates a number of surveys. In December of each year, staff is asked to evaluate the Executive Director 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.

Total Hours Allocated: 220

Audit Report Recipients: Executive Director, 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, , Chief Financial Officer/Chief Operating 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: 130

Audit Report Recipients: Executive Director, Deputy Executive Director/Chief Retirement Officer, Chief Investment Officer, Chief Financial Officer/Chief Operating Officer, and SIB Audit Committee

SUCCESSION AND STRATEGIC PLANNING:

With the significant turnover in the past two years at RIO and the reorganization of the agency succession planning has become a priority. Phase I was completed during the 2022 fiscal year and Phase II is currently in progress. Succession Planning Phases will continue to develop as RIO continues to grow.

Strategic planning has also become a priority for RIO due to all the changes. IA will be working with the Executive Team on strategic planning for the Internal Audit division. As the retirement and investment programs change and grow, IA will be able to continue to have adequate staffing and resources to meet the needs of RIO.

Total Hours Allocated: 150

Audit Report Recipients: Executive Director and SIB Audit Committee

TEACHERS' FUND FOR RETIREMENT (TFFR) PARTICIPANT DATA REVIEW:

The Participant Data Review will focus on Model 2 Partial employers. This review will take a sample of one member from each Model 2 Partial employer. There are approximately 40 Model 2 Partial employers.

The primary purpose of 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 done as a service for the TFFR members. This audit will also ensure the accuracy of the data for the conversion.

Total Hours Allocated: 500

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

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 will be reviewed to ensure the proper documents are on file and that accounts are closed. Other information reviewed in the audit are the monthly North Dakota Vital Statics reports and the weekly PBI reports.

Total Hours Allocated: 250

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

PENSION SYSTEM UPGRADE ASSISTANCE:

Internal Audit staff has been a part of Stage 1 and Stage 2 of the Pension Administration System (PAS) upgrade. Stage 3 for the PAS upgrade kicked off in May 2022 and audit staff will also be involved in the implementation phase of the project.

Total Hours Allocated: 600

GOVERNANCE AND POLICY REVIEW COMMITTEE:

The SIB Governance and Policy Review Committee was established in March 2022, to review the governance of the SIB. IA will attend the committee meetings and provide assistance when needed.

Total Hours Allocated: 40

EXTERNAL AUDITOR ASSISTANCE:

Internal Audit assists our external auditor, CliftonLarsonAllen (CLA), with a variety of tasks related to the annual financial audit. 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.

Total Hours Allocated: 200

ADMINISTRATIVE MANUAL:

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

Total Hours Allocated: 40

RECORDS RETENTION:

With all the open records requests, it's important to manage RIO's records according to state guidelines and division retention schedules. The Contract and Records Assistant (CRA) is the staff member responsible for maintaining RIO's Records Management Program.

IA staff is responsible for the following information:

- Sets-up the retention schedule for audit records (reviewed annually)
- Maintains a Table of Contents of Audit Records (new records added and records are purged)
- Purging records from our Audit Drive (CRA will give a deadline to annually purge)
Audit records have been converted to electronic form which has increased the time to manage.
- IA sends an annual summary to the CRA on the size of the new records added during the year and the size of the records purged (established by the retention schedule)
- IA has been working with the CRA in restructuring and organizing audit records to make them more accessible and easier for staff to manage and purge.
- IA will be writing a summary documenting IA and the audits completed since the inception of the Division in 1993.

Total Hours Allocated: 60

GENERAL CONSULTING:

Internal Audit has been included 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: 50

PROFESSIONAL DEVELOPMENT

Professional development and continuing education opportunities are critical to continued professional success. Internal Audit staff will attend applicable education when able to.

Total Hours Allocated: 80

SPECIAL PROJECTS

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

Total Hours Allocated: 55

Audit Report Recipients: SIB Audit Committee and SIB

Internal Audit will allocate resources to the following administrative activities during fiscal year 2023:

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, AND EMAIL:

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: 400

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: 40

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
INTERNAL AUDIT DIVISION
BUDGETED HOURS FOR THE FISCAL YEAR JULY 1, 2022 TO JUNE 30, 2023**

	2022 -2023 BUDGET HOURS (2 FTE'S)
Primary Audit Responsibilities - Total Hours Allocated: 2,575	
Teachers' Fund for Retirement (TFFR) Participant Data Review (Model 2 Partial)	500
TFFR Death Audit	250
Pension System Upgrade Assistance	600
Internal Control Assessment	130
Cash Management and Rebalancing Audit	200
Executive Limitations	220
Succession and Strategic Planning	150
Governance and Policy Review Committee	40
Special Projects	55
Administrative Manual	40
Records Retention	60
General Consulting	50
External Auditor Assistance (Financial, GASB, Actuary, etc.)	200
Professional Development	80
	2,575
% of Available Hours Allocated to Primary Audit Responsibilities	62%
Primary Administrative Responsibilities - Total Hours Allocated: 1,585	
Annual Leave, Sick Leave, and Holidays	695
Staff Meetings, Reporting, & Email	400
SIB Audit Committee, SIB, and TFFR Board Meetings	450
Preparation and Attendance	
Annual Audit Planning	40
	1,585
% of Available Hours Allocated to Primary Administrative Responsibilities	38%
Total 2022-2023 Budget Hours	4,160

Total Budget Hours for 2022 - 2023	4,160
Budget Hours for D. Thorsen	2,080
Budget Hours for S. Sauter	2,080

MEMORANDUM

TO: State Investment Board (SIB) Audit Committee

FROM: Sara Sauter, Supervisor of Internal Audit

DATE: May 11, 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

- RIO Policy Manual update – Phase 2
- PAS –Pension Administration Software – Stage 3
- TFFR File Maintenance – Phase 3
- Succession Planning Phase II

The IA Supervisor will attend the SIB Governance and Policy Review Committee in May 2022. She will be assisting them as needed.

The Supervisor of IA has also been working with the Executive Review Committee on activities for the evaluation of the Executive Director. The assistance has included administering surveys, collecting data, helping put together meeting material packets, and attending meetings. The Executive Review Committee is on schedule to complete its annual work by May 2022.

The Executive Steering Committee signed a contract with Sagitec for the PAS system. IA staff will attend the Kick-off meetings for Stage III scheduled on May 16 and 17 of 2022.

The TFFR Board can hire an independent actuary to periodically perform an actuarial audit of the plan's consulting actuary. The Board utilizes an RFP process to select and approve the plan's actuarial auditor. Per the TFFR Governance Policy - Section K, it is the Board's intent to issue RFP's every 6 to 10 years, however, the timing may be adjusted at the Board's discretion. An actuarial audit was last conducted in 2016, and previously in 2006.

IA attended education on actuarial audits in October 2021 at the P2F2 Conference. The presenter described the several types of audits available and recommended the current best practice that an audit occur every 5 years. Per the request of the Executive Director, IA staff attended meetings with the Contracts and Records Assistant and Retirement Program Manager to discuss and to help develop a RFP for the Actuarial Audit. The CRA forwarded the recommendations to the Executive Director, and it was approved. RFP development for the actuarial audit will happening in the upcoming months and IA will be a part of the discussions.

IA continues to work on the Succession Planning Phase II focusing on onboarding, offboarding, and access documentation.

IA had Division meetings to discuss audit projects for the fourth quarter 2022 and audit planning for fiscal year 2022/23.

Annual performance evaluations are completed in the May-June timeframe. IA 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 or the Audit Committee. IA staff will be working on their performance reviews. As part of the review process, RIO staff also reviews the RIO Administrative Manual, HRMS policy/procedures, Risk Management, and WSI safety procedures on safety.

The tracking document presented at the February 2022 Audit Committee meeting is still in progress. IA will be meeting with IT to discuss the cybersecurity recommendations and Retirement Services for the follow-up on the Salary Verification recommendations. An updated status on the tracking will be provided at the August meeting.

Upcoming Audit Activities

IA 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 be coming onsite for the preliminary audit work in June 2022. They will likely be requesting information from staff.

IA will be working with the Contracts and Records Assistant on the annual Risk Management Report in June 2022. 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, IA and the Contracts and Records Assistant will also be working together on the Worker's Compensation report to receive up to a 15% discount on those premiums.

The Executive Director, Executive Assistant, and Supervisor of IA will continue reviewing the Administrative Manual for RIO to make updates and changes as needed.

TFFR File Maintenance Audit

FROM: Dottie Thorsen, Internal Auditor
DATE: May 10, 2022
SUBJECT: Audit Scope/Fieldwork/Timeline
TO: SIB Audit Committee

The original scope of the audit was the months April of 2020 and October 2020. Fieldwork for the audit started in June of 2021.

Due to COVID (starting March 2020), the majority of the RIO staff were working remotely. In order for staff to work remotely, Retirement Services had to change procedures. Their operations before COVID were paper driven. Privacy considerations and protection of member information did not allow paper documents to be taken out the office. Administrative and Retirement Services Managers had to quickly develop a system to scan all documents to the drives for RS's staff to work with the members from their homes. The original scope was to review the transactions completed with the new procedures in place.

Due to the five staff resignations/retirements in the first quarter of fiscal year 2021, IA decided that Succession Planning took a higher priority to completing this audit work. IA completed looking at the May 2020 information for Phase I and II.

Audit work was resumed late Jan/Feb. 2022. However, the timeframe of the audit was changed due to retirements that occurred in August and September of 2021– the Supervisor of Administrative Services, the Office Assistant, and the Membership Specialist. IA decided not to review information from October 2020. After discussion with the Supervisor of IA, IA decided to review information from October 2021. New staff would be included in the audit, and we could observe how work was distributed within the RS's division during the transition/reorganization.

Two of the vacant positions were filled in October as temporary positions in October 2021 – the Membership Specialist Temp. and the Front Desk Temp. RIO felt the positions needed to be temporary due to the PAS project. The new PAS system will probably affect data entry type duties. The Contracts Records Administrator and Retirement Program Administrative Assistant were still vacant in October. The Temp Membership Specialist was filled and then was vacant again after the temp resigned the end of November.

June, July, August 2021: Audit planning, prep, gathering information, fieldwork, and testing -
Phase I and Phase 2 completed on May 2020
No testing was completed for Phase III
109 hours

September 2021: Succession Planning was the priority and fieldwork for File Maintenance was suspended

January, February, March 2022: IA resumed fieldwork for October 2021. Completed Phases I, II, and III
124 Hours

April 2022: Working on Summary of Fieldwork and questions that require a response for RS's. IA
Will forward to RS's the first week of May 2022
Approximately 50 hours as of April 15, 2022

STATE OF NORTH DAKOTA

PROCLAMATION

INTERNAL AUDIT AWARENESS MONTH MAY 2022

WHEREAS, internal auditing is a vital part of strengthening organizations and protecting stakeholders of both the public and private sectors across North Dakota and throughout the United States; and

WHEREAS, internal auditing helps identify and manage organizations' risks and ensure policies, procedures and controls are in place and working appropriately; and

WHEREAS, internal auditing is an increasingly sophisticated and complex activity requiring specialized knowledge, training and education; and

WHEREAS, internal auditing is an established profession, led by The Institute of Internal Auditors, with a globally recognized code of ethics and International Standards for the Professional Practice of Internal Auditing; and

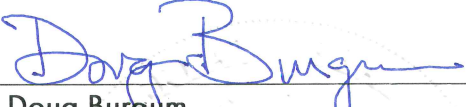
WHEREAS, The Institute of Internal Auditors is the internal audit profession's most widely recognized advocate, educator and provider of standards, guidance and certifications; and

WHEREAS, historically, the global internal audit profession promotes awareness about its value during the month of May each year; and

WHEREAS, the contribution of internal auditors to the success of organizations and the global economy at large deserves our recognition and commendations.

NOW, THEREFORE, as Governor of the State of North Dakota, I do hereby proclaim
May 2022, INTERNAL AUDIT AWARENESS MONTH in the State of North Dakota.




Doug Burgum
GOVERNOR

ATTEST:


Alvin A. Jaeger
SECRETARY OF STATE

MEMORANDUM

TO: State Investment Board (SIB) Audit Committee

FROM: Sara Sauter, Supervisor of Internal Audit

DATE: May 10, 2022

SUBJECT: 2022 - 2023 SIB Audit Committee Meeting Schedule

Included is the proposed schedule for the 2022-2023 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 2022 must be approved prior to November 18, 2022.
- The Executive Limitation Audit Report for CY 2022 must be approved prior to February 17, 2023.
- The RIO Financial Audit Scope and Approach for FY 2023 and the GASB 68 Schedules Audit Report must be approved prior to May 19, 2023.

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 21, 2022 – TFFR @ 1:00 PM
July 21, 2022 - SIB GPR @ 10:00 AM
July 22, 2022 – SIB @ 8:30 AM

August

August 9, 2022- TFFR GPR @ 10:00 AM
August 9, 2022 – SIB Audit Committee @ 2:30 PM
August 2022 – SIB GRP
August 26, 2022 – SIB @ 8:30 AM

September

September 20, 2022 – SIB Securities @ 10:00 AM
September 22, 2022 – SIB GRP @ 10:00 AM
September 22, 2022 – TFFR @ 1:00 PM
September 23, 2022 – SIB @ 8:30 AM

October

October 2022 – SIB GPR
October 28, 2022 – SIB @ 8:30 AM

November

November 8, 2022 – TFFR GPR @ 3:30 PM
November 2022 – SIB GPR
November 15, 2022 – SIB Audit Committee @ 2:30 PM
November 17, 2022 – TFFR @ 1:00 PM
November 18, 2022 – SIB @ 8:30 AM

December

December 13, 2022 – SIB Securities @ 10:00 AM
December 16, 2022 – SIB @ 8:30 AM (tentative)

January

January 26, 2023 – TFFR @ 1:00 PM
January 26, 2023 – SIB GPR @ 10:00 AM
January 27, 2023 – SIB @ 8:30 AM

February

February 7, 2023 – TFFR GPR @ 3:30 PM
February 16, 2023 – SIB Audit Committee @ 10:00 AM
February 16, 2023 – TFFR @ 2:00 PM (tentative)
February 17, 2023 – SIB @ 8:30 AM

March

March 23, 2023 – SIB GPR @ 10:00 AM
March 23, 2023 – TFFR @ 1:00 PM
March 24, 2023 – SIB @ 8:30 AM (tentative)

April

April 27, 2023 – SIB GPR @ 10:00 AM
April 27, 2023 – TFFR @ 1:00 PM
April 28, 2023 – SIB @ 8:30 AM

May

May 9, 2023 – TFFR GPR @ 3:30 PM
May 11, 2023 – SIB Audit Committee @ 2:30 PM
May 18, 2023 – SIB GPR @ 10:00 AM
May 16, 2023 – SIB Securities @ 3:00 PM
May 19, 2023 – SIB @ 8:30 AM

June

June 15, 2023 – TFFR Board Retreat @ 1:00 PM

MEMORANDUM

TO: State Investment Board (SIB) Audit Committee
FROM: Sara Sauter, Supervisor of Internal Audit
DATE: May 10, 2022
SUBJECT: 2022 - 2023 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 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 Friday, June 3, 2022, if you are willing to continue to serve on the SIB Audit Committee through the end of the next fiscal year (July 1, 2022, to June 30, 2023). 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.