

AUDIT COMMITTEE MEETING

Tuesday, November 14, 2023 – 2:30 PM
RIO Conference Room
1600 E Century Ave Suite 3, Bismarck, ND 58503
[Click here to join the meeting](#)

AGENDA

- I. **Call to Order and Approval of Agenda (Committee Action)** (5 minutes)
 - a. Pledge of Allegiance
- II. **Approval of August 2, 2023, Minutes (Committee Action)** (5 minutes)
- III. **Presentation of June 30, 2023, Financial Audit Report of RIO and GASB 68 Schedule Audit Update (Committee Action)** (30 minutes) – Paul Niedermuller & Tonia Schulz, CliftonLarsonAllen
- IV. **Executive Limitations/Staff Relations (Information)** (10 minutes) – Ms. Murtha
- V. **Internal Audit Overview (Information)** (15 minutes) – Ms. Seiler
- VI. **Internal Audit Maturity Process (Committee Action)** (45 minutes) – Ms. Seiler
 - a. Internal Audit Maturity Development Workplan
 - b. Internal Audit Maturity RFP
- VII. **Audit Committee & Internal Audit Charters (Committee Action)** (20 minutes) – Ms. Seiler
- VIII. **2023-24 First Quarter Audit Activities (Committee Action)** (10 minutes) – Ms. Seiler
- IX. **Current Internal Audit Activities (Committee Action)** (10 minutes) – Ms. Seiler
 - a. Model 2 Partial Memo (Information)
 - b. What Does Audit Want Now? (Information)
- X. **Other** – Next SIB Audit Committee Meeting
Workforce Safety & Insurance Board Room
1600 E Century Ave Suite 1, Bismarck, ND 58503
Thursday, February 15, 2023 @ 2:30 PM
- XI. **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
AUGUST 2, 2023, MEETING**

MEMBERS PRESENT: Thomas Beadle, State Treasurer, Chair
Dina Cashman, External Representative
Cody Mickelson, TFFR Board
Adam Miller, PERS Board
Todd Van Orman, External Representative

STAFF PRESENT: Rachel Kmetz, Accounting Mgr.
Missy Kopp, Exec. Assistant
Jan Murtha, Exec. Director
Sara Seiler, Suprv. of Internal Audit
Dottie Thorsen, Internal Auditor

GUESTS : Dean DePountis, Attorney General's Office

CALL TO ORDER:

Treasurer Beadle called the State Investment Board (SIB) Audit Committee meeting to order at 2:31 p.m. on Wednesday, August 2, 2023, at Workforce Safety & Insurance, 1600 E Century Ave., Bismarck, ND.

The following Audit Committee members were present representing a quorum, Treasurer Beadle, Ms. Cashman, Mr. Miller, and Mr. Van Orman.

AGENDA:

The agenda was considered for the August 2, 2023, meeting.

IT WAS MOVED BY MR. MILLER AND SECONDED BY MR. MICKELSON AND CARRIED BY A VOICE VOTE TO APPROVE THE AGENDA FOR THE AUGUST 2, 2023, MEETING AS DISTRIBUTED.

AYES: MS. CASHMAN, MR. MILLER, MR. VAN ORMAN, MR. MICKELSON, AND TREASURER BEADLE

NAYS: NONE

MOTION CARRIED

MINUTES:

The minutes were considered for the May 11, 2023, meeting.

IT WAS MOVED BY MR. MILLER AND SECONDED BY MR. VAN ORMAN AND CARRIED BY A VOICE VOTE TO ACCEPT THE MAY 11, 2023, MINUTES AS DISTRIBUTED.

AYES: MR. VAN ORMAN, MR. MICKELSON, MR. MILLER, MS. CASHMAN, AND TREASURER BEADLE

NAYS: NONE

MOTION CARRIED

ELECTION OF CHAIR, VICE CHAIR, AND LIASON:

IT WAS MOVED BY MR. MILLER AND SECONDED BY MR. VAN ORMAN AND CARRIED BY A ROLL CALL VOTE TO ELECT TREASURER BEADLE AS CHAIR.

**AYES: MR. MILLER, MS. CASHMAN, MR. VAN ORMAN, AND TREASURER BEADLE
NAYS: NONE
ABSENT: MR. MICKELSON
MOTION CARRIED**

IT WAS MOVED BY MR. MILLER AND SECONDED BY MS. CASHMAN AND CARRIED BY A ROLL CALL VOTE TO ELECT MR. MICKELSON AS VICE CHAIR.

**AYES: MR. VAN ORMAN, MS. CASHMAN, MR. MILLER, AND TREASURER BEADLE
NAYS: NONE
ABSENT: MR. MICKELSON
MOTION CARRIED**

Treasurer Beadle appointed Ms. Seiler as the Audit Committee Liaison to the SIB.
Mr. Mickelson rejoined the meeting at 2:48 p.m.

CODE OF CONDUCT POLICY AFFIRMATION:

Ms. Seiler reviewed the annual code of conduct policy affirmation that all Committee members complete.

EXECUTIVE LIMITATIONS/STAFF RELATIONS:

Two of the new FTEs that were granted as part of RIO's budget have been posted. The Sr. Investment Accountant position was posted internally and filled by Mr. Schmitcke. The Investment Accountant position which he vacated, will be posted soon. The other new position is the Fiscal/Investment Administrative Assistant which has been posted and closed. Interviews will be conducted soon. Ms. Murtha reviewed current projects, initiatives, Executive Director education activities, and staff presentations. There is a new Board member onboarding process that has been developed by the GPR Committee. The first session was held this morning. Board discussion followed.

CURRENT INTERNAL AUDIT (IA) ACTIVITIES:

Ms. Seiler provided an update on current IA activities. Current activities that are in progress include the Executive Limitations audit, Model 2 Partial salary review, RIO policy manual update, onboarding and offboarding process review, and the Pioneer project. Ms. Seiler reviewed the meetings that Audit staff have attended in relation to RIO and Investment Program activities.

Ms. Seiler provided an update on the IA maturity process. The Executive Director (ED), Chief Financial/Operating Officer (CFO/COO), and Ms. Seiler are working on the implementation of the recommendations from Weaver. A request for proposal (RFP) is being developed for additional resources to assist with the implementation.

The IA workplan was approved by the Committee at their May 2023 meeting and included hours for special projects. With the Legislature's approval of the internal investment program, IA is asking to use some of the special project time to participate in an advisory role as the program is developed. Committee discussion followed.

IT WAS MOVED BY MR. MILLER AND SECONDED BY MS. CASHMAN AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE CURRENT IA ACTIVITIES REPORT.

AYES: MS. CASHMAN, MR. MILLER, MR. VAN ORMAN, MR. MICKELSON, AND TREASURER BEADLE

NAYS: NONE

MOTION CARRIED

YEAR END AUDIT ACTIVITIES REPORT:

Ms. Seiler reviewed the 2022-23 Year End Audit Activities Report. The report includes a summary of IA activities during FY 2022-23 including the Executive Limitations audit, SIB client satisfaction survey and self-assessment. The IA business process review was completed by Weaver. IA completed a payroll audit which was requested by the ED and an employee exit review after an abrupt separation. Other activities included external auditor assistance, an internal control assessment, cash management and rebalancing audit, and participation in reviews of the RIO Administrative Manual and Onboarding/Offboarding procedures. Committee discussion followed.

IT WAS MOVED BY MS. CASHMAN AND SECONDED BY MR. MICKELSON AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE YEAR END AUDIT ACTIVITIES REPORT.

AYES: MR. VAN ORMAN, MR. MICKELSON, MR. MILLER, MS. CASHMAN, AND TREASURER BEADLE

NAYS: NONE

MOTION CARRIED

AUDIT COMMITTEE REPORT TO SIB:

The FY End Audit Committee Report to the SIB was provided for review and acceptance by the Committee.

IT WAS MOVED BY MR. VAN ORMAN AND SECONDED BY MS. CASHMAN AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE 2022-23 AUDIT COMMITTEE REPORT TO THE SIB.

AYES: MR. MILLER, MS. CASHMAN, MR. MICKELSON, MR. VAN ORMAN, AND TREASURER BEADLE

NAYS: NONE

MOTION CARRIED

AUDIT CHARTER REVIEW:

Ms. Seiler reviewed the Audit Committee charter which outlines Committee responsibilities. An annual review is required.

IT WAS MOVED BY MS. CASHMAN AND SECONDED BY MR. MILLER AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE AUDIT CHARTER REVIEW OF RESPONSIBILITIES.

AYES: MR. VAN ORMAN, MS. CASHMAN, MR. MICKELSON, MR. MILLER, AND TREASURER BEADLE

NAYS: NONE

MOTION CARRIED

RESOLUTION FOR JON GRIFFIN:

ND State Investment Board Resolution
In Appreciation of Jon Griffin

WHEREAS, Jon Griffin has served as a member of the State Investment Board Audit Committee since 2018; and

WHEREAS, Jon Griffin has diligently carried out his duties and responsibilities as a member of the SIB Audit Committee and fiduciary of the SIB Program; and

WHEREAS, Jon Griffin has been a valued and dedicated member of the SIB Audit Committee in helping maintain the integrity and stability of the SIB Program.

NOW THEREFORE, BE IT RESOLVED that Jon Griffin be duly recognized by the SIB Audit Committee for his years of unselfish dedication to the State of North Dakota through his service on the SIB Audit Committee.

DATED this 2nd day of August 2023

IT WAS MOVED BY MR. MICKELSON AND SECONDED BY MR. VAN ORMAN AND CARRIED BY A VOICE VOTE TO APPROVE THE BOARD RESOLUTION.

AYES: MS. CASHMAN, MR. MILLER, MR. VAN ORMAN, MR. MICKELSON, AND TREASURER BEADLE

NAYS: NONE

MOTION CARRIED

OTHER:

With no further business to come before the Audit Committee, Treasurer Beadle adjourned the meeting at 4:11 p.m.

Prepared by:

Missy Kopp, Assistant to the Board



Financial Statement Audit Results Presentation to ND RIO– Audit Committee

November 14, 2023

We'll get you there.



Agenda

- 2023 Financial Statement Audit Results
- Required Communications
- Financial Highlights
- 2023 GASB 68 Schedules Audit Update
- Discussion/Questions



2023 Financial Statement Audit Results

- Independent Auditors' Report on the Financial Statements (Page 1)
 - Includes the Combining Financial Statements – Investment Trust Funds

Unmodified
Opinion on
Financial
Statements

- Consistent with prior years
- Best opinion available

Limited procedures were performed, and no opinion rendered, on management's discussion and analysis, required supplemental information, supplemental schedules, and the Introductory, Investment, Actuarial, and Statistical sections



2023 Financial Statement Audit Results (Cont.)

- Independent Auditors' Report on Internal Control and Compliance (Page 4)
 - No material weaknesses were identified
 - No significant deficiencies were identified
- Governance Communication Letter
 - Distributed in a separate communication (to be discussed)



Required Communications

- Significant Risks
 - Management override of controls (required by auditing standards)
 - Valuation of alternative investments
 - Valuation of the TFFR net pension liability
- Significant accounting policies
 - Described in Note 1 to the financial statements
 - No new significant accounting policies adopted/implemented in FY 2023
- No audit adjustments or passed adjustments

Required Communications (Cont.)

- Significant judgments and accounting estimates
 - Valuation of alternative investments
 - Walkthroughs of initial due diligence, on-going monitoring and financial reporting
 - Confirmation with a sample of fund managers
 - Review audited financial statements
 - Evaluate auditor competence
 - Evaluate the opinion (i.e. Unmodified, modified)
 - Determine if the financial statements are reported in accordance with GAAP and if investments are reported at fair value
 - Reconcile the audited NAV to the fair value reported by NDRIO



Required Communications (Cont.)

- Significant judgments and accounting estimates (cont.)
 - Actuarial information, assumptions and methods used
 - Census data testing
 - Use of an auditor's specialist
 - Confirm TFFR's actuary's independence
 - Review TFFR's actuary's valuation report
 - Evaluate the reasonableness of the long-term rate of return (LTROR) and other assumptions
 - Compare to industry standards and circumstances specific to TFFR
 - Review most recent asset allocation, actuarial audits, experience studies, long-term historical data and current market data
 - Review of the discount rate calculation



Required Communications (Cont.)



Management Representations

Requested certain representations from management that are included in management representation letter



Disagreements with Management

None



Significant Disclosures

Disclosures are neutral, consistent and clear



Difficulties Encountered

None



Management's Consultations with Other Independent Accountants

None that we're aware of

Financial Highlights – Statements of Net Position

– Fiduciary Funds

(in millions)	2023	2022	\$ Change	% Change
Total Investments	\$19,449.9	\$17,948.5	\$1,501.4	8.4%
Securities Lending Collateral	\$119.0	\$147.7	(\$28.7)	-19.4%
Receivables	\$94.1	\$95.3	(\$1.2)	-1.3%
Cash & Other	\$27.4	\$24.4	\$3.0	12.3%
Total Assets	\$19,690.4	\$18,215.9	\$1,474.5	8.1%
Total Liabilities	\$136.0	\$157.5	(\$21.5)	-13.7%
Net Position	\$19,555.7	\$18,057.2	\$1,498.5	8.3%



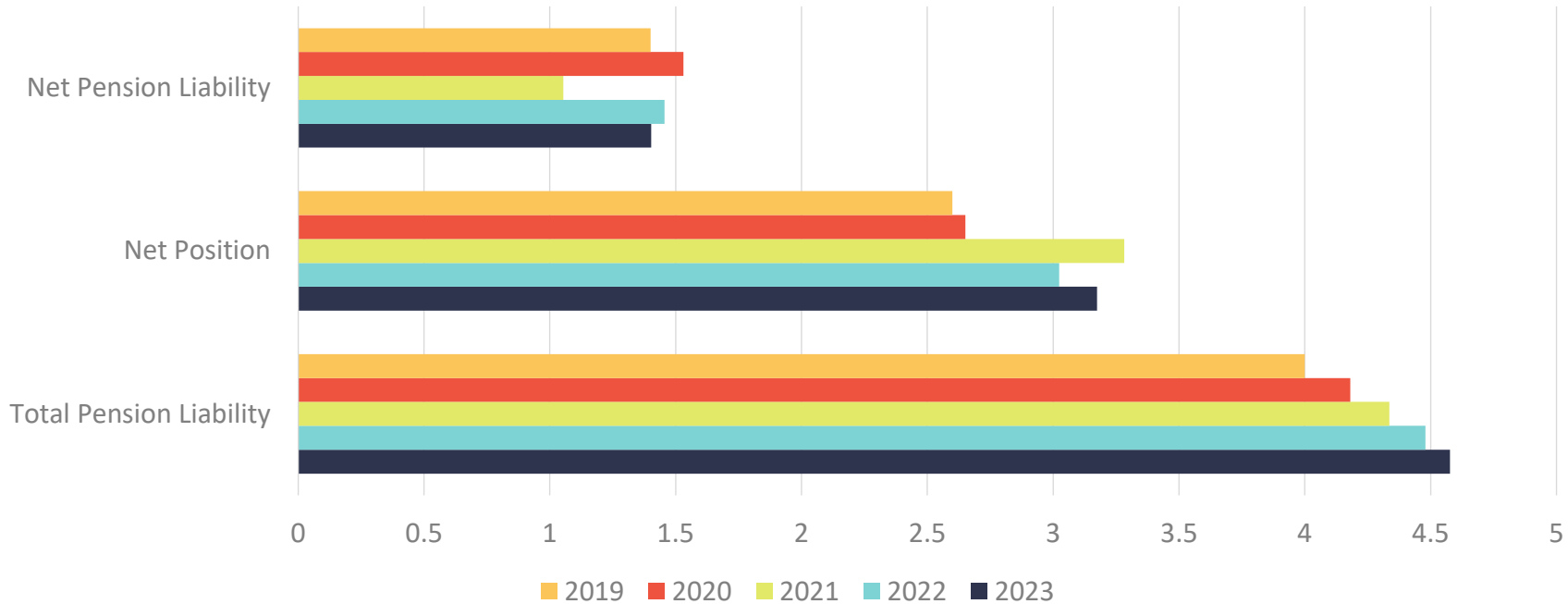
Financial Highlights – Statements of Changes in Net Position – Fiduciary Funds

(in millions)	2023	2022	\$ Change	% Change
Contributions	\$197.7	\$194.8	\$2.9	1.5%
Total Net Investment Income(Loss)	\$1,312.3	(\$1,644.9)	\$2,957.2	179.8%
Purchase of Units	\$1,077.4	\$918.7	\$158.7	17.3%
Total Additions	\$2,587.4	(\$531.4)	\$3,118.8	586.9%
Payments to TFFR members	\$262.3	\$251.8	\$10.5	4.2%
Administrative Expenses	\$6.0	\$4.6	\$1.4	30.4%
Redemption of Units	\$820.6	\$328.7	\$491.9	149.7%
Total Deductions	\$1,088.9	\$585.1	\$503.8	86.1%
Change in Net Position	\$1,498.5	(\$1,116.5)	\$2,615.0	234.2%



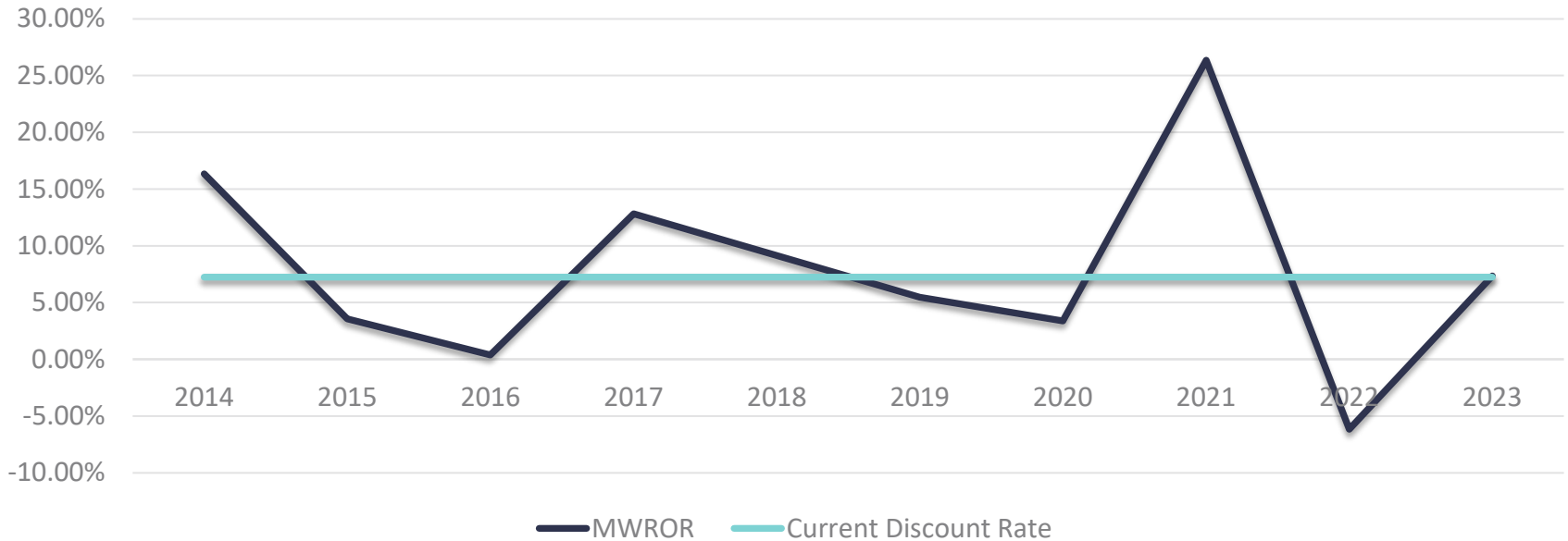
Financial Highlights – TFFR Net Pension Liability

(expressed in billions)



Financial Highlights - ND TFFR Performance

Annual Money-Weighted Rate of Return, Net of Investment Expenses



2023 GASB 68 Schedules Audit Update

- Employer Census Testing is Complete
 - Tested individual employee census data at **12** separate employers
 - 125 total employees tested
 - No findings
- Will start audit of the GASB 68 Schedules this month
- Expect to issue our final report on the Schedules by the end of 2023



Discussion/Questions

We'll get you there.

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State Investment Board
Teachers' Fund for Retirement
North Dakota Retirement and Investment Office
Bismarck, North Dakota

We have audited the financial statements of the North Dakota Retirement and Investment Office (RIO) as of and for the year ended June 30, 2023, and have issued our report thereon dated November 3, 2023. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by RIO are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2023.

We noted no transactions entered into by RIO during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were significant estimates in the valuation of alternative investments and the calculation of the actuarial information included in the footnotes and required supplementary information.

The valuation of alternative investments, including private equity and real asset investments, are a management estimate which is primarily based upon net asset values reported by the investment managers and comprise 18% of the total investment portfolio. The values for these investments are reported based upon the most recent financial data available and are adjusted for cash flows through June 30, 2023. Our audit procedures validated this approach through the use of confirmations sent directly to a sample of investment managers and the review of the most recent audited financial statements for these sampled funds. Furthermore, we reviewed management's estimate and found it to be reasonable.

The actuarially calculated information was based on the assumptions and methods adopted by the Board, including an expected investment rate of return of 7.25% per annum compounded annually. The valuation takes into account all of the promised benefits required by the Retirement Code to which members are entitled as of July 1, 2023. Our audit procedures included reviewing the actuarial valuation and related assumptions used therein and we believe the estimate to be reasonable.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

Corrected misstatements

Management did not identify and we did not notify them of any financial statement misstatements detected as a result of audit procedures.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the attached management representation letter dated November 3, 2023.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to RIO's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as RIO's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Required supplementary information

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

Supplementary information in relation to the financial statements as a whole

With respect to the schedules of administrative expenses, consultant expenses, investment expenses, and appropriations – budget basis – fiduciary funds (collectively, the supplementary information) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated November 3, 2023.

Other information included in annual reports

Other information (financial or nonfinancial information other than the financial statements and our auditors' report thereon) is being included in your annual report and is comprised of the introductory, investment, actuarial and statistical sections. Our responsibility for other information included in your annual report does not extend beyond the financial information identified in our opinion on the financial statements. We have no responsibility for determining whether such other information is properly stated and do not have an obligation to perform any procedures to corroborate other information contained in your annual report. We are required by professional standards to read the other information included in your annual report and consider whether a material inconsistency exists between the other information and the financial statements because the credibility of the financial statements and our auditors' report thereon may be undermined by material inconsistencies between the audited financial statements and other information. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report. Our auditors' report on the financial statements includes a separate section, "Other Information," which states we do not express an opinion or any form of assurance on the other information included in the annual report. We did not identify any material inconsistencies between the other information and the audited financial statements.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document. You are responsible to provide us the opportunity to review such documents before issuance.

* * *

This communication is intended solely for the information and use of the State Investment Board, the Board of the Teachers' Fund for Retirement and management of RIO and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Baltimore, Maryland
November 3, 2023

November 3, 2023

CliftonLarsonAllen LLP
1966 Greenspring Drive, Suite 300
Timonium, MD 21093

This representation letter is provided in connection with your audit of the financial statements of North Dakota Retirement and Investment Office (RIO), which comprise the fiduciary net position of the entity as of June 30, 2023, and the related changes in fiduciary net position for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to misstatements that are material. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

We confirm, to the best of our knowledge and belief, as of November 3, 2023, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the Contract between the State of North Dakota and CliftonLarsonAllen LLP dated March 29, 2021, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP. The financial statements include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
 2. We acknowledge and have fulfilled our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
 3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
 4. All significant plan amendments, adopted during the period or subsequent to the date of the financial statements, and their effects on benefits and financial status have been disclosed in the financial statements.
5. The values of non-readily marketable investments represent good faith estimates of fair value. The methods and significant assumptions used result in a measure of fair value appropriate for financial measurement and disclosure purposes.
 6. Significant estimates have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. Significant estimates are estimates at the financial statement date that could change materially within the next year.

7. No events, including instances of noncompliance, have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.
8. We have not identified or been notified of any uncorrected financial statement misstatements.
9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
10. Guarantees, whether written or oral, under which the entity is contingently liable, if any, have been properly recorded or disclosed in accordance with U.S. GAAP.
11. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
12. With respect to actuarial assumptions and valuations:
 - a. Management agrees with the actuarial methods and assumptions used by the actuary for funding purposes and for determining the total pension liability and has no knowledge or belief that would make such methods or assumptions inappropriate in the circumstances. We did not give any, nor cause any, instructions to be given to RIO's actuary with respect to values or amounts derived, and we are not aware of any matters that have impacted the independence or objectivity of RIO's actuary.
 - b. There were no omissions from the participant data provided to the actuary for the purpose of determining the total pension liability and other actuarially determined amounts in the financial statements.
 - c. There have been no changes in the actuarial methods or assumptions used in calculating the amounts recorded or disclosed in the financial statements. There have been no changes in plan provisions between the actuarial valuation date and the date of this letter.
13. We believe the plan and trust established under the plan is qualified under the appropriate section of The North Dakota Century Code, and we intend to continue them as a qualified plan and trust.
14. We are not aware of any present legislative intentions to terminate the plan.

Information Provided

1. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Complete minutes of the meetings of the governing board and related committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - e. All actuarial reports prepared for the plan during the year.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others when the fraud could have a material effect on the financial statements.
5. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, regulators, or others.
6. We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations and provisions of contracts, or abuse whose effects should be considered when preparing financial statements.
7. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
8. There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with U.S. GAAP.
 9. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
 10. We are responsible for compliance with the laws, regulations, and provisions of contracts applicable to RIO, and we have identified and disclosed to you all laws, regulations, and provisions of contracts that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
 11. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts, or any debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
 12. The entity has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
 13. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
 14. Investments, derivative instruments, and land and other real estate held by RIO are properly valued.
 15. Expenses have been appropriately classified the statement of changes in net position, and allocations have been made on a reasonable basis.
 16. Revenues are appropriately classified in the statement of changes in net position.

17. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
18. Deposits and investment securities and derivative instruments are properly classified as to risk and are properly valued and disclosed.
19. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
20. We have obtained the service auditor's report from our service organization Northern Trust. We have reviewed such report, including the complementary user controls. We have implemented the relevant user controls, and they were in operation for the year ended June 30, 2023.
21. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
22. We acknowledge our responsibility for presenting the schedules (the supplementary information) in accordance with U.S. GAAP, and we believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information. If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditors' report thereon.
23. We acknowledge our responsibility for the preparation of the other information included in our annual report, which is comprised of the Introductory, Investment, Actuarial and Statistical Sections (other information). The other information is consistent with the financial statements and does not contain any material misstatements. With regard to the other information that has not been provided to you, the final version of the documents will be provided to you when available, and prior to issuance of the annual report by the entity, so that you can complete your required procedures. We agree to correct material inconsistencies that you may identify.

Signature: _____



Title: Executive Director

Signature: _____



Title: Chief Financial Officer



FINANCIAL STATEMENTS
June 30, 2023 and 2022

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INDEPENDENT AUDITORS' REPORT

Governor Doug Burgum
The Legislative Assembly
Janilyn Murtha, Executive Director
State Investment Board
Teachers' Fund for Retirement Board
North Dakota Retirement and Investment Office

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the North Dakota Retirement and Investment Office (RIO), a department of the State of North Dakota, which comprise the statement of net position – fiduciary funds as of June 30, 2023 and 2022, and the related statement of changes in net position – fiduciary funds for the years then ended, and the related notes to the financial statements, which collectively comprise RIO's basic financial statements, and the combining and individual fund financial statements as of and for the years ended June 30, 2023 and 2022, as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of RIO as of June 30, 2023 and 2022, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the combining and individual fund financial statements referred to above present fairly, in all material respects, the respective financial position of each of the individual funds of RIO as of June 30, 2023 and 2022, and the changes in financial position of such funds for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of RIO are intended to present the financial position and the changes in financial position of only that portion of the State of North Dakota that is attributable to the transactions of RIO. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2023 and 2022, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of RIO and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Governor Doug Burgum
The Legislative Assembly
Janilyn Murtha, Executive Director
State Investment Board
Teachers' Fund for Retirement Board
North Dakota Retirement and Investment Office

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about RIO's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of RIO's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about RIO's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of changes in NPL and related ratios - ND Teachers' Fund for Retirement and employer contributions - ND Teachers' Fund for Retirement, investment returns - ND Teachers' Fund for Retirement, employer's share of NPL and NOL – ND Public Employees Retirement System and employer contributions – ND Public Employees Retirement System and related notes, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

Governor Doug Burgum
The Legislative Assembly
Janilyn Murtha, Executive Director
State Investment Board
Teachers' Fund for Retirement Board
North Dakota Retirement and Investment Office

We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise RIO's basic financial statements and the combining and individual fund financial statements. The schedules of administrative expenses, consultant expenses, investment expenses, and appropriations – budget basis – fiduciary funds (schedules), as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Audit Standards*, we have also issued our report dated November 3, 2023, on our consideration of RIO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of RIO's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering RIO's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Baltimore, Maryland
November 3, 2023



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Governor Doug Burgum
The Legislative Assembly
Janylyn Murtha, Executive Director
State Investment Board
Teachers' Fund for Retirement Board
North Dakota Retirement and Investment Office

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the North Dakota Retirement and Investment Office (RIO), a department of the State of North Dakota, as of and for year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise RIO's basic financial statements, and the combining and individual fund financial statements, and have issued our report thereon dated November 3, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered RIO's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RIO's internal control. Accordingly, we do not express an opinion on the effectiveness of RIO's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether RIO's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Governor Doug Burgum
The Legislative Assembly
Janilyn Murtha, Executive Director
State Investment Board
Teachers' Fund for Retirement Board
North Dakota Retirement and Investment Office

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of RIO's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering RIO's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Baltimore, Maryland
November 3, 2023

North Dakota Retirement and Investment Office

Management's Discussion and Analysis

June 30, 2023 and 2022

Our discussion and analysis of the ND Retirement and Investment Office's (RIO) financial performance provides an overview of RIO's financial activities for the fiscal years ended June 30, 2023 and 2022. Please read this in conjunction with the basic financial statements, which follow this discussion.

RIO administers two fiduciary funds, a pension trust fund for the ND Teachers' Fund for Retirement (TFFR) and an investment trust fund for the ND State Investment Board (SIB) consisting of 28 investment clients (noting that TFFR is one of the 28 investment clients) in two investment pools and three individual investment accounts.

Financial Highlights

Total net position increased in fiscal year 2023 from the previous fiscal year in the fiduciary funds by \$1.5 billion (8.3%). Fiscal year 2022 net position had decreased \$1.12 billion (5.8%) from fiscal year 2021. The increase in FY2023 is primarily due to modest investment returns and significant deposits into the Legacy Fund. Approximately 78% of the FY2023 increase is due to the growth of the Legacy Fund. The Legacy Fund was created by a constitutional amendment in 2010. The amendment provides that 30% of oil and gas gross production and oil extraction taxes on oil produced after June 30, 2011, be transferred to the Legacy Fund. Transfers into the Legacy Fund totaled \$858.7 million and \$707.3 million in FY2023 and FY2022, respectively. Meanwhile, net investment income for the Legacy Fund exceeded \$683 million in FY2023 and negative \$875 million in FY2022. The decrease in net position in FY2022 was primarily due to low investment returns due to weak financial markets during the year.

Total additions to the fiduciary funds was a positive \$2.6 billion in FY2023 and a negative \$531 million in FY2022. A large portion of this swing was driven by fluctuations in net investment income. Net investment income was \$1.3 billion in FY2023 following net investment income of negative \$1.6 billion in FY2022. Changes in purchases of units each year are highly dependent on Legacy Fund deposits and thus on oil and gas production. There was an increase in purchases of units in the investment program in FY2023 as the price and production of oil remained strong throughout the year. This followed an increase in purchases of units in FY2022 due to a steep increase in oil prices throughout the year. Total fiduciary fund purchases of units increased \$158.7 million (17.3%) in FY2023 and increased \$283.5 million (44.6%) in FY2022.

Deductions in the fiduciary funds increased in FY2023 by \$503.7 million (86%) and decreased in FY2022 by \$927.4 million (61.3%). The vast majority of the changes in deductions are driven by redemptions of units due to the constitutionally mandated earnings transfers from the Legacy Fund to the State's general fund every two years. The State Constitution requires that all earnings accrued after June 30, 2017, be transferred to the general fund at the end of each biennium. A transfer of \$486.6 million was made in June 2023.

Payments to TFFR members in the form of benefits and refunds increased by \$10.4 million (4.1%) and \$10.7 million (4.5%) in FY2023 and FY2022, respectively. These increases represented a rise in the total number of retirees drawing retirement benefits from the pension fund as well as an increase in the retirement salaries on which the benefits of new retirees are based.

As of June 30, 2023 and 2022, the TFFR pension plan had a Net Pension Liability (NPL) of \$1.40 billion and of \$1.46 billion, and Plan Fiduciary Net Position as a percent of Total Pension Liability (TPL) of 69.3% and 67.5%, respectively.

North Dakota Retirement and Investment Office

Management's Discussion and Analysis

June 30, 2023 and 2022

Overview of the Financial Statements

This report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and additional supplementary information that presents combining statements for the investment trust funds. The basic financial statements include fund financial statements that focus on individual parts of RIO's activities (fiduciary funds).

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included additional supplementary information, including combining statements that provide details about our investment trust funds, each of which are added together and presented in single columns in the basic financial statements.

Fund Financial Statements

The fund financial statements provide detailed information about RIO's activities. Funds are accounting devices that RIO uses to keep track of specific sources of funding and spending for particular purposes.

RIO uses fiduciary funds as RIO is the trustee, or fiduciary, for TFFR (a pension plan) and SIB (investment trust funds). RIO is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of RIO's fiduciary activities are reported in a statement of net position and a statement of changes in net position.

Financial Analysis

RIO's fiduciary fund total assets as of June 30, 2023 and 2022, were \$19.69 billion and \$18.22 billion, respectively, and were comprised mainly of investments. Total assets increased by \$1.48 billion (8.1%) in fiscal year 2023 primarily due to on-going deposits to the Legacy Fund and Budget Stabilization Fund as well as stronger financial markets in FY2023. The decrease of \$1.94 billion (9.6%) in fiscal year 2022 was primarily due to the required distribution from the legacy fund in July of 2021 coupled with weak financial markets.

Total liabilities as of June 30, 2023 and 2022, were \$135.98 million and \$157.5 million. Both year-end liabilities were comprised mainly of the securities lending collateral payable.

RIO's fiduciary fund total net position was \$19.6 billion and \$18.1 billion at the close of fiscal years 2023 and 2022, respectively.

North Dakota Retirement and Investment Office
Management's Discussion and Analysis
June 30, 2023 and 2022

**North Dakota Retirement and Investment Office
Net Position – Fiduciary Funds
(In Millions)**

	<u>2023</u>	<u>2022</u>	<u>Total % Change</u>
Assets			
Investments	\$ 19,449.9	\$ 17,948.5	8.4%
Securities Lending Collateral	119.0	147.7	-19.4%
Receivables	94.1	95.3	-1.3%
Cash & Other	27.4	24.4	4.6%
Total Assets	<u>19,690.4</u>	<u>18,215.9</u>	8.1%
Deferred Outflows of Resources			
Deferred outflows related to pensions	<u>3.1</u>	<u>1.8</u>	71.2%
Liabilities			
Obligations under Securities Lending	119.0	147.7	-19.4%
Accounts Payable & Accrued Expenses	17.0	9.8	72.5%
Total Liabilities	<u>136.0</u>	<u>157.5</u>	-13.7%
Deferred Inflows of Resources			
Deferred inflows related to pensions	<u>1.8</u>	<u>3.0</u>	-40.3%
Total Net Position	<u>\$ 19,555.7</u>	<u>\$ 18,057.2</u>	8.3%
	<u>2022</u>	<u>2021</u>	<u>Total % Change</u>
Assets			
Investments	\$ 17,948.5	\$ 19,948.0	23.0%
Sec Lending Collateral	147.7	88.9	51.2%
Receivables	95.3	89.4	4.7%
Cash & Other	24.4	26.1	21.9%
Total Assets	<u>18,215.9</u>	<u>20,152.4</u>	23.0%
Deferred Outflows of Resources			
Deferred outflows related to pensions	<u>1.8</u>	<u>2.7</u>	201.6%
Liabilities			
Obligations under Securities Lending	147.7	88.9	51.2%
Accounts Payable & Accrued Expenses	9.8	891.6	6344.4%
Total Liabilities	<u>157.5</u>	<u>980.5</u>	1250.1%
Deferred Inflows of Resources			
Deferred inflows related to pensions	<u>3.0</u>	<u>0.8</u>	-18.2%
Total Net Position	<u>\$ 18,057.2</u>	<u>\$ 19,173.8</u>	17.5%

**North Dakota Retirement and Investment Office
Changes in Net Position – Fiduciary Funds
(In Millions)**

	<u>2023</u>	<u>2022</u>	<u>Total % Change</u>
Additions			
Contributions	\$ 197.7	\$ 194.8	1.5%
Net Investment Income (Loss)	1,311.3	(1,645.7)	179.7%
Net Securities Lending Income	1.0	0.8	34.5%
Purchase of Units	1,077.4	918.7	17.3%
Total Additions	<u>2,587.4</u>	<u>(531.4)</u>	586.9%
Deductions			
Payments to TFFR members	262.3	251.8	4.1%
Administrative Expenses	6.0	4.6	30.1%
Redemption of Units	820.6	328.7	149.6%
Total Deductions	<u>1,088.9</u>	<u>585.1</u>	86.1%
Total Change in Net Position	<u>\$ 1,498.5</u>	<u>\$ (1,116.5)</u>	234.2%
	<u>2022</u>	<u>2021</u>	<u>Total % Change</u>
Additions			
Contributions	\$ 194.8	\$ 191.5	1.7%
Net Investment Income	(1,645.7)	3,545.0	-146.4%
Net Securities Lending Income	0.8	1.0	-23.2%
Purchase of Units	918.7	635.2	44.6%
Total Additions	<u>(531.4)</u>	<u>4,372.7</u>	-112.2%
Deductions			
Payments to TFFR members	251.8	241.1	4.4%
Administrative Expenses	4.6	4.8	-5.4%
Redemption of Units	328.7	1,266.6	-74.0%
Total Deductions	<u>585.1</u>	<u>1,512.5</u>	-61.3%
Total Change in Net Position	<u>\$ (1,116.5)</u>	<u>\$ 2,860.2</u>	-139.0%

Statement of Changes in Net Position – Additions

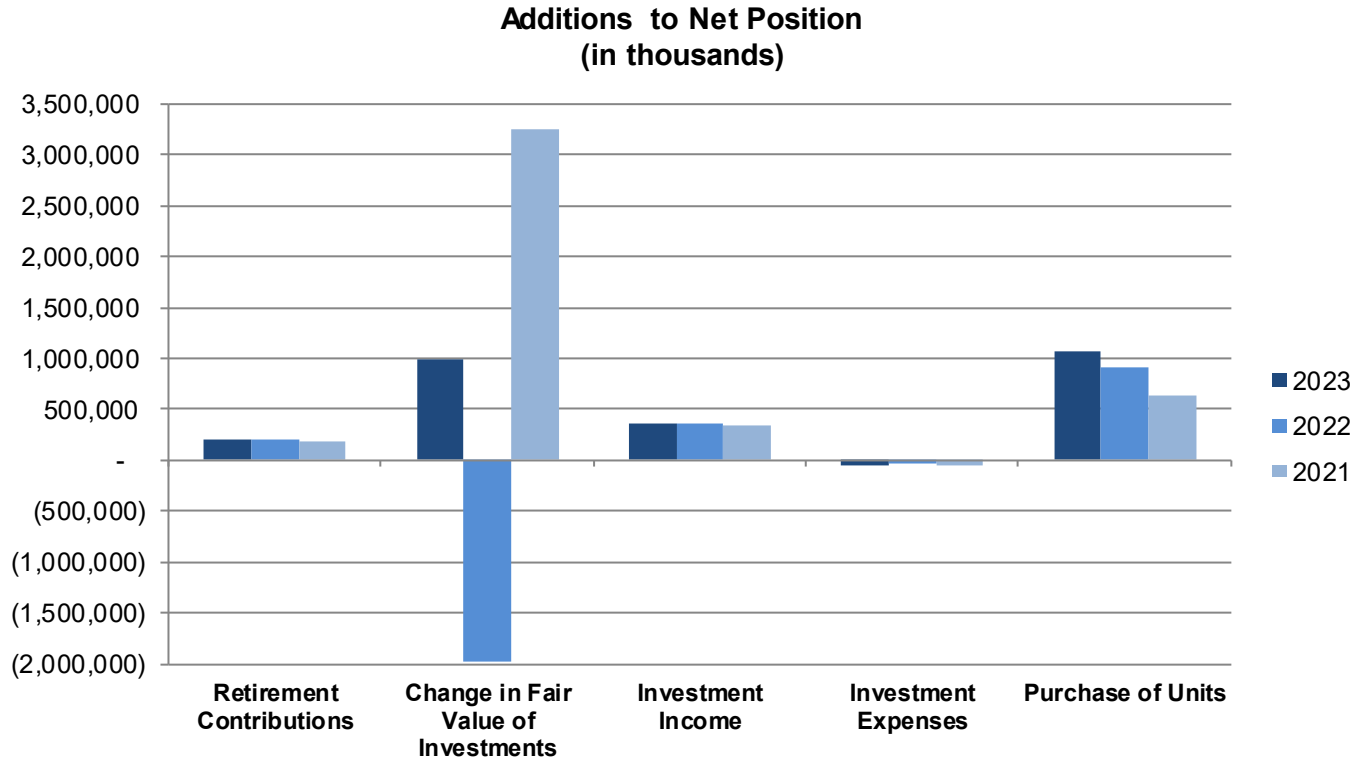
Contributions collected by the pension trust fund increased by \$2.9 million (1.5%) in FY2023 and \$3.3 million (1.74%) in FY2022 due to both an increase in the number of active members contributing to the fund and an increase in the average salary of active members. Net investment income (including net securities lending income and net of investment expenses) increased by \$2.96 billion (179.7%) in FY2023 and decreased by \$5.2 billion (146.4%) in FY2022. Financial markets in FY2023 recovered

North Dakota Retirement and Investment Office

Management’s Discussion and Analysis

June 30, 2023 and 2022

substantially from the significant pullback realized in FY2022. Deposits of funds into the investment trust fund (purchase of units) increased by \$158.7 million in FY2023 and \$283.5 million in FY2022, mainly due to changes in amounts available for deposits to the Legacy Fund and Budget Stabilization Fund.



Statement of Changes in Net Position – Deductions

Benefits paid to TFFR plan participants, including partial lump-sum distributions, increased by \$9.7 million (3.9%) and \$9.5 million (4.0%) in FY2023 and FY2022, respectively. The increases are due to an increase in the total number of retirees in the plan as well as an increased retirement salary on which the benefits are based. Refunds increased by \$778 thousand (10.9%) after increasing by \$1.2 million (20.6%) in FY2022.

Administrative expenses increased by \$1.4 million in FY2023 after decreasing by \$262,000 in FY2022. The FY2023 change is due to a few different factors. The first factor is an increase due to the continuation of the Pension Administration System (PAS) modernization project that began in FY2020. The total budget for this multi-year PAS project is \$9.3 million, with approximately \$3.4 million expended through June 30, 2023. This project will continue through FY2024 and FY2025. The second factor offset was an increase in the agency’s portion of the pension expense from the ND Public Employees Retirement System pension plan for the State of ND. This change was caused by a decrease in the ND Public Employees Retirement System discount rate. Finally, an additional 6 full time employees were granted to RIO during a special legislative session which has increased the salary line for the agency.

The decrease in FY2022 was due to two different factors. The first factor was an increase due to the continuation of the Pension Administration System (PAS) modernization project as previously

North Dakota Retirement and Investment Office

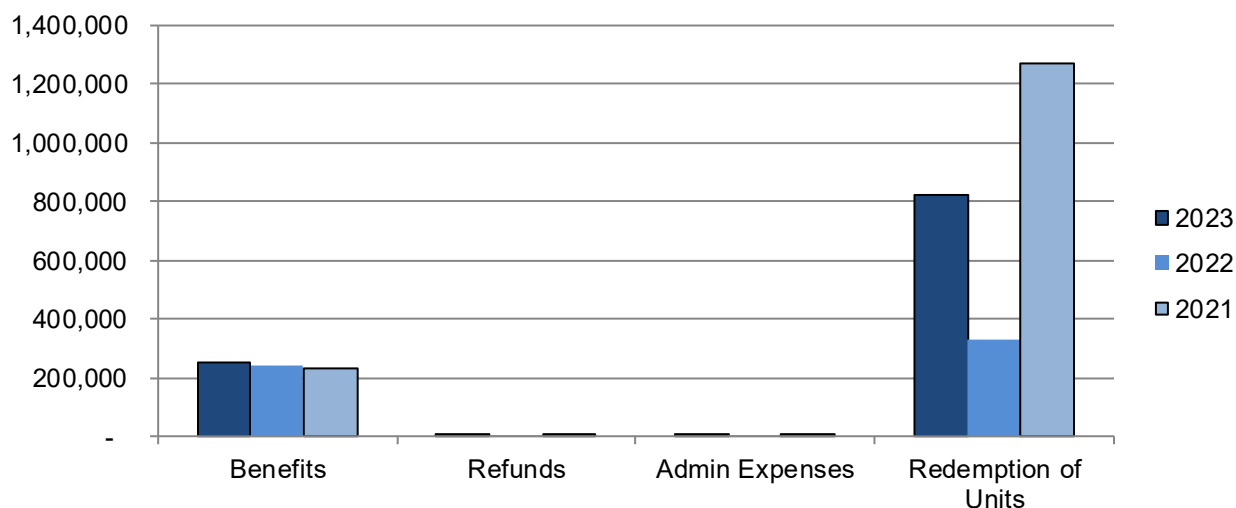
Management's Discussion and Analysis

June 30, 2023 and 2022

discussed. The second factor which offset the increase was a large decrease in the agencies portion of the pension expense from the ND Public Employees Retirement System Pension plan for the State of ND.

The redemption of units in the investment trust funds increased by \$491.9 million after decreasing by \$937.8 million in FY2022. Biennial swings will continue in this line item due to the biennial earnings transfers from the Legacy Fund required under the State Constitution.

Deductions from Net Position (in thousands)



Conclusion

Inflation continues to moderate from its peak of June 2022 as shelter inflation, a significant driver, is gradually easing and as non-shelter services, which has been a persistent driver of overall inflation, has just begun to moderate. The overall economy has performed exceedingly well this past year with the third quarter 2023 GDP growing at a 4.9% rate that is expected to slow. Interest rates are much higher over the past year impacting several other factors such as anticipated slower government spending, slower trade from a strong dollar, slower home building, slower business investment, and less consumer spending. The equity markets have been on pause and the fixed income markets have adjusted to higher yields. The Fed has also been on pause with regards to interest rate increases, waiting for more evidence that inflation will continue to moderate. Much depends on the moderation of inflation, continued economic growth and importantly, any event risks such as the war in Ukraine or the Mid-East. Although the markets continue to be challenging throughout 2023, the lower valuations of fixed income and moderate economic growth potentially driving earnings and equity prices provides a foundation for higher returns in the future.

For the fiscal year ended June 30, 2023, the pension investment pool (which includes the TFFR pension plan), the Legacy Fund and the insurance investment pool generated net time weighted investment returns of 7.76%, 8.19% and 3.01%, respectively, with both the legacy and insurance pool outperforming their corresponding policy benchmarks. Investment returns for global equities exceeded policy benchmarks in fiscal year 2023 largely due to factors mentioned above. Public equity and fixed income were both up as opposed to the prior year. Global public equities for pension, insurance, and legacy were up 15.49%, 16.72%, and 16.51%, respectively. Total fixed income was also slightly up for

North Dakota Retirement and Investment Office

Management's Discussion and Analysis

June 30, 2023 and 2022

pension, insurance, and legacy at 1.56%, 0.30%, and 1.32%, respectively. Alternatively, real asset performance was down for FY2023. The pension pool's real asset allocation was down (5.01%), while the Legacy Fund and insurance pool's real asset portfolios down (1.24%) and (2.48%), respectively. Private equity in the pension pool returned 9.25% for the fiscal year.

For the fiscal year ended June 30, 2022, the pension investment pool (which includes the TFFR pension plan), the Legacy Fund, and the insurance investment pool experienced net time weighted investment returns of (6.51%), (10.12%), and (8.18%), respectively. Investment returns were below long-term expectations in FY2022 largely due to many uncertain conditions at the end of FY2022. The inflation outlook remained very uncertain from a tight US labor market, a war in Ukraine, and Chinese supply chain concerns from a strict COVID policy. Public equity and fixed income were down significantly as opposed to prior years. Global public equities for pension, insurance, and legacy were down (12.59%), (15.71%), and (16.32%), respectively. Total fixed income was also down for pension, insurance, and legacy at (8.23%), (11.31%), and (9.8%), respectively. Alternatively, real asset and private equity performance was positive for FY2022. The pension pool's real asset allocation was up 18.52%, while the Legacy Fund and insurance pool's real asset portfolios were up 9.29% and 5.92%, respectively, driven by strong returns from infrastructure assets. Private equity in the pension pool returned 11.73% for the fiscal year, largely attributable to their ability to handle market news and smooth returns for investors.

The State Investment Board will continue to evaluate the ever-evolving markets and research investment strategies to prudently manage its investment portfolios.

TFFR's funding objective is to meet long-term pension benefit obligations through contributions and investment income. To address TFFR's funding shortfall, the ND State Legislature took action in 2011 and approved legislation to increase contributions (4% member and 4% employer) and modify certain benefits for non-grandfathered members. Increased contribution rates will be in effect until TFFR reaches 100% funding on an actuarial basis. This comprehensive funding recovery plan, along with solid investment performance in the future, is expected to improve TFFR's funding level over the long term. However, the Board is continuing to closely assess plan risks and monitor funding progress.

TFFR procured a new actuary effective July 1, 2023. The valuation report was provided by Segal for the period ending June 30, 2022 and will be provided by GRS for the period ending June 30, 2023. As reported by the valuation report provided by GRS, TFFR's funding level increased from 69.93% to 71.21% on an actuarial basis from July 1, 2022 to July 1, 2023. Based on the fair value of assets rather than the actuarial value of assets, the funded ratio increased to 69.34% compared to 67.5% last year. The Plan has a net investment loss of \$85.6 million, down from \$109.1 million from the previous year that has not yet been recognized in the actuarial value of assets due to the five-year smoothing. This unrecognized asset loss is primarily due to the investment losses during FY 2022, 2020, and 2019, largely offset by the investment gain during FY 2021. GRS has also observed that as the net asset losses currently being deferred are phased into the actuarial value of assets over the next four years this will put adverse pressure on the results in coming years. GRS also noted that the plan experience an actuarial asset loss of \$30.7 million during fiscal year ending 2023 and this loss was due to the actuarial value of assets earning a return less than the assumed 7.25%.

Protecting the long term solvency of the pension plan is the TFFR Board's fiduciary responsibility. The Board will continue to proactively address TFFR funding issues so the plan will be financially strong and sustainable for past, present, and future ND educators. Fund actuary GRS has opined 2043, as such,

North Dakota Retirement and Investment Office

Management's Discussion and Analysis

June 30, 2023 and 2022

the current Member and Employer contribution rates are expected to be sufficient to meet the Board financing objectives.

Contacting RIO Financial Management

This financial report is designed to provide our Boards, our membership, our clients and the general public with a general overview of RIO's finances and to demonstrate RIO's accountability for the money we receive. If you have any questions about this report or need additional information, contact the North Dakota Retirement and Investment Office, PO Box 7100, Bismarck, ND 58507-7100.

North Dakota Retirement and Investment Office
Statement of Net Position – Fiduciary Funds
June 30, 2023 and 2022

	Pension Trust		Investment Trust		Total	
	2023	2022	2023	2022	2023	2022
Assets:						
Investments, at fair value						
Global equities	\$ 1,765,727,972	\$ 1,584,149,652	\$ 7,634,156,673	\$ 6,377,122,880	\$ 9,399,884,645	\$ 7,961,272,532
Global fixed income	785,396,084	787,437,048	6,118,263,992	5,971,871,760	6,903,660,076	6,759,308,808
Global real assets	550,692,368	557,108,366	2,492,901,108	2,524,055,925	3,043,593,476	3,081,164,291
Cash equivalents	11,465,710	32,514,380	91,320,247	114,203,723	102,785,957	146,718,103
Total investments	<u>3,113,282,134</u>	<u>2,961,209,446</u>	<u>16,336,642,020</u>	<u>14,987,254,288</u>	<u>19,449,924,154</u>	<u>17,948,463,734</u>
Invested securities lending collateral	24,099,094	20,080,497	94,904,315	127,624,822	119,003,409	147,705,319
Receivables:						
Investment income	10,215,544	11,279,712	54,917,457	52,010,441	65,133,001	63,290,153
Contributions	28,887,364	31,982,043	-	-	28,887,364	31,982,043
Miscellaneous	10,502	12,783	37,003	26,616	47,505	39,399
Total receivables	<u>39,113,410</u>	<u>43,274,538</u>	<u>54,954,460</u>	<u>52,037,057</u>	<u>94,067,870</u>	<u>95,311,595</u>
Due from other state agency	889	824	641	457	1,530	1,281
Cash and cash equivalents	23,963,066	23,308,382	866,980	426,172	24,830,046	23,734,554
Equipment (net of depreciation)	-	-	-	-	-	-
Software (not in production)	2,580,327	680,999	-	-	2,580,327	680,999
Total assets	<u>3,203,038,920</u>	<u>3,048,554,686</u>	<u>16,487,368,416</u>	<u>15,167,342,796</u>	<u>19,690,407,336</u>	<u>18,215,897,482</u>
Deferred outflows of resources						
Related to pensions	<u>1,715,386</u>	<u>1,113,188</u>	<u>1,433,652</u>	<u>726,471</u>	<u>3,149,038</u>	<u>1,839,659</u>
Liabilities:						
Accounts payable	624,924	840,496	173,010	245,515	797,934	1,086,011
Investment expenses payable	1,702,692	1,318,222	8,735,757	4,862,595	10,438,449	6,180,817
Securities lending collateral	24,099,094	20,080,497	94,904,315	127,624,822	119,003,409	147,705,319
Accrued expenses	3,432,474	1,981,945	2,220,534	524,250	5,653,008	2,506,195
Miscellaneous payable	-	-	42,921	32,737	42,921	32,737
Due to other state funds	-	-	-	-	-	-
Due to other state agencies	39,647	28,184	6,177	6,698	45,824	34,882
Total liabilities	<u>29,898,831</u>	<u>24,249,344</u>	<u>106,082,714</u>	<u>133,296,617</u>	<u>135,981,545</u>	<u>157,545,961</u>
Deferred inflows of resources						
Related to pensions	<u>947,020</u>	<u>1,498,287</u>	<u>822,733</u>	<u>1,465,298</u>	<u>1,769,753</u>	<u>2,963,585</u>
Fiduciary net position:						
Restricted for pensions	3,173,908,455	3,023,920,243	-	-	3,173,908,455	3,023,920,243
Held in trust for investment pool participants:						
Pension pool	-	-	4,167,815,538	3,945,900,809	4,167,815,538	3,945,900,809
Insurance pool	-	-	2,966,057,036	2,902,957,219	2,966,057,036	2,902,957,219
Held in trust for individual investment accounts	-	-	9,248,024,047	8,184,449,324	9,248,024,047	8,184,449,324
Total fiduciary net position	<u>\$ 3,173,908,455</u>	<u>\$ 3,023,920,243</u>	<u>\$ 16,381,896,621</u>	<u>\$ 15,033,307,352</u>	<u>\$ 19,555,805,076</u>	<u>\$ 18,057,227,595</u>
Each participant unit is valued at \$1.00						
Participant units outstanding			<u>16,381,896,621</u>	<u>15,033,307,352</u>		

The accompanying notes are an integral part of the financial statements.

North Dakota Retirement and Investment Office
Statement of Changes in Net Position – Fiduciary Funds
Years Ending June 30, 2023 and 2022

	Pension Trust		Investment Trust		Total	
	2023	2022	2023	2022	2023	2022
Additions:						
Contributions:						
Employer contributions	\$ 102,307,888	\$ 100,331,347	\$ -	\$ -	\$ 102,307,888	\$ 100,331,347
Member contributions	94,283,739	92,462,223	-	-	94,283,739	92,462,223
Purchased service credit	1,108,690	2,017,055	-	-	1,108,690	2,017,055
Interest, penalties and other	(10,492)	25,166	-	-	(10,492)	25,166
Total contributions	197,689,825	194,835,791	-	-	197,689,825	194,835,791
Investment income:						
Net change in fair value of investments						
value of investments	175,293,526	(248,369,374)	817,632,974	(1,722,081,517)	992,926,500	(1,970,450,891)
Interest, dividends and other income	49,487,353	56,305,952	311,158,011	307,545,995	360,645,364	363,851,947
	224,780,879	(192,063,422)	1,128,790,985	(1,414,535,522)	1,353,571,864	(1,606,598,944)
Less investment expenses	7,468,043	6,924,716	34,820,522	32,154,613	42,288,565	39,079,329
Net investment income	217,312,836	(198,988,138)	1,093,970,463	(1,446,690,135)	1,311,283,299	(1,645,678,273)
Securities lending activity:						
Securities lending income	198,283	134,425	1,070,688	806,990	1,268,971	941,415
Less securities lending expenses	(39,632)	(26,870)	(216,321)	(161,310)	(255,953)	(188,180)
Net securities lending income	158,651	107,555	854,367	645,680	1,013,018	753,235
Purchase of units (\$1 per unit)	-	-	1,077,407,627	918,708,674	1,077,407,627	918,708,674
Total additions	415,161,312	(4,044,792)	2,172,232,457	(527,335,781)	2,587,393,769	(531,380,573)
Deductions:						
Benefits paid to participants	253,704,476	244,069,172	-	-	253,704,476	244,069,172
Partial lump-sum distributions	657,452	635,924	-	-	657,452	635,924
Refunds	7,920,125	7,142,359	-	-	7,920,125	7,142,359
Administrative expenses	2,891,047	2,592,340	3,061,781	1,983,025	5,952,828	4,575,365
Redemption of units (\$1 per unit)	-	-	820,581,407	328,730,469	820,581,407	328,730,469
Total deductions	265,173,100	254,439,795	823,643,188	330,713,494	1,088,816,288	585,153,289
Change in fiduciary net position	149,988,212	(258,484,587)	1,348,589,269	(858,049,275)	1,498,577,481	(1,116,533,862)
Fiduciary net position:						
Beginning of year	\$ 3,023,920,243	\$ 3,282,404,830	\$ 15,033,307,352	\$ 15,891,356,627	\$ 18,057,227,595	\$ 19,173,761,457
End of Year	\$ 3,173,908,455	\$ 3,023,920,243	\$ 16,381,896,621	\$ 15,033,307,352	\$ 19,555,805,076	\$ 18,057,227,595

The accompanying notes are an integral part of the financial statements.

Note 1 - Summary of Significant Accounting Policies

RIO is an agency of the State of North Dakota operating through the legislative authority of North Dakota Century Code (NDCC) Chapter 54-52.5 and is considered part of the State of North Dakota financial reporting entity and included in the State of North Dakota's Annual Comprehensive Financial Report.

For financial reporting purposes, RIO has included all funds, and has considered all potential component units for which RIO is financially accountable, and other organizations for which the nature and significance of their relationship with RIO are such that exclusion would cause RIO's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of RIO to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to or impose specific financial burdens on RIO.

Based upon these criteria, there are no component units to be included within RIO as a reporting entity and RIO is part of the State of North Dakota as a reporting entity.

Fund Financial Statement

All activities of RIO are accounted for within the pension and investment trust funds and are shown, by fund, in the fiduciary fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of RIO are reported using the economic resources measurement focus and the accrual basis of accounting.

This measurement focus includes all assets and liabilities associated with the operations of the fiduciary funds on the statements of net position. Additions are recorded when earned and deductions are recorded when a liability is incurred, regardless of the timing of related cash flows.

Fiduciary Fund

A pension trust fund and investment trust funds have been established to account for the assets held by RIO in a trustee capacity for TFFR and as an agent for other governmental units or funds which have placed certain investment assets under the management of the SIB. The SIB manages two external investment pools and three individual investment accounts. The two external investment pools consist of a pension pool and insurance pool. The SIB manages the investments of the North Dakota Public Employees Retirement System, Bismarck City Employees and Police, City of Grand Forks Employees and City of Grand Forks Park District Employees pension plans in the pension pool. The investments of Workforce Safety & Insurance, State Fire and Tornado, State Bonding, Petroleum Tank Release Compensation Fund, Insurance Regulatory Trust, North Dakota Association of Counties Fund, Risk Management, Risk Management Workers Comp, PERS Group Insurance, City of Bismarck Deferred Sick Leave, City of Fargo FargoDome Permanent Fund, Cultural Endowment Fund, ND State Board of Medicine, Lewis and Clark Interpretive Center Endowment Fund, Attorney General Settlement Fund, Veterans' Cemetery Trust Fund, ND University System Capital Building Fund, Budget Stabilization Fund and Arts Across the Prairie Maintenance Endowment fund are managed in the insurance pool. The Legacy Fund, Job Service of North Dakota, and PERS Retiree Health investments are managed by the SIB in individual investment accounts.

North Dakota Retirement and Investment Office

Notes to the Financial Statements

June 30, 2023 and 2022

RIO has no statutory authority over, nor responsibility for, these investment trust funds other than the investment responsibility provided for by statute or through contracts with the individual agencies. The funds that are required to participate according to statute are: Public Employees Retirement System, Workforce Safety & Insurance, State Fire and Tornado, State Bonding, Petroleum Tank Release Compensation Fund, Insurance Regulatory Trust, Risk Management, Risk Management Workers Comp, Cultural Endowment Fund, Legacy Fund and Budget Stabilization Fund.

RIO follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing accounting principles generally accepted in the United States of America for governmental entities.

Pension and Investment Trust Funds are accounted for using the accrual basis of accounting. Member contributions are recognized in the period in which they are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the NDCC.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RIO utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements of net position.

Budgetary Process

RIO operates through a biennial appropriation, which represents appropriations recommended by the Governor and presented to the General Assembly (the Assembly) at the beginning of each legislative session. The Assembly enacts RIO's budget through passage of a specific appropriation bill. The State of North Dakota's budget is prepared principally on a modified accrual basis. The Governor has line-item veto power over all legislation, subject to legislative override.

Once passed and signed, the appropriation bill becomes RIO's financial plan for the next two years. Changes to the appropriation are limited to Emergency Commission authorization, initiative, or referendum action. The Emergency Commission can authorize receipt of federal or other moneys not appropriated by the Assembly if the Assembly did not indicate intent to reject the money. The Emergency Commission may authorize pass-through federal funds from one state agency to another. The Emergency Commission may authorize the transfer of expenditure authority between appropriated line items; however, RIO has specific authority as a special fund to transfer between the contingency line item and other line items. Unexpended appropriations lapse at the end of each biennium, except certain capital expenditures covered under NDCC section 54-44.1-11.

RIO does not use encumbrance accounting. The legal level of budgetary control is at the agency, appropriation and expenditure line-item level. RIO does not formally budget revenues and does not budget by fund. The statement of revenues, expenditures and changes in fund balances - budget and actual is not prepared because revenues are not budgeted.

North Dakota Retirement and Investment Office

Notes to the Financial Statements

June 30, 2023 and 2022

Capital Assets and Depreciation

Capital asset expenditures greater than \$5,000 are capitalized at cost in accordance with Section 54-27-21 of the NDCC. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

	<u>Years</u>
Office equipment	5
Furniture and fixtures	5

Investments

NDCC Section 21-10-07 states that the SIB shall apply the prudent investor rule when investing funds under its supervision. The prudent investor rule means that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income.

The pension fund belonging to TFFR and investment trust funds attributable to the City of Bismarck Employee Pension Plan, the City of Bismarck Police Pension Plan, Job Service of North Dakota, City of Grand Forks Employee Pension Plan, City of Grand Forks Park District Pension Plan and the Public Employees Retirement System (PERS) must be invested exclusively for the benefit of their members. All investments are made in accordance with the respective fund's long-term investment objectives and performance goals.

Pooled Investments

Many funds whose investments are under the supervision of the SIB participate in pooled investments. The agencies transfer money into the investment pools and receive an appropriate percentage ownership of the pooled portfolio based upon fair value. All activities of the investment pools are allocated to the agencies based upon their respective ownership percentages. Each participant unit is valued at \$1.00 per unit.

Investment Valuation and Income Recognition

Investments are reported at fair value. Quoted market prices, when available, have been used to value investments. The fair values for securities that have no quoted market price represent estimated fair value. International securities are valued based upon quoted foreign market prices and translated into US dollars at the exchange rate in effect at June 30. In general, corporate debt securities have been valued at quoted market prices or, if not available, values are based on yields currently available on comparable securities of issuers with similar credit ratings. Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investments, including timberland, is based on appraisals plus fiscal year-to-date capital transactions. Publicly traded alternative investments are valued based on quoted market prices. When not readily available, alternative investment securities are valued using current estimates of fair value from the investment manager. Such valuations consider variables such as financial performance of the issuer, comparison of comparable companies' earnings multiples, cash flow analysis, recent sales prices of investments, withdrawal restrictions, and other pertinent information. Because of the inherent uncertainty of the valuation for these other alternative investments, the estimated fair value may differ from the values that would have been used had a ready market existed.

North Dakota Retirement and Investment Office

Notes to the Financial Statements

June 30, 2023 and 2022

The net change in fair value of investments consists of the realized gains or losses and the unrealized increase or decrease in fair value of investments during the year. Realized gains and losses on sales of investments are computed based on the difference between the sales price and the original cost of the investment sold. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current fiscal year were included as a change in the fair value of investments reported in the prior year(s) and the current year.

Unrealized gains and losses are computed based on changes in the fair value of investments between years. Security transactions are accounted for on a trade date basis. Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date.

Pensions and Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension and OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expenses, information about the fiduciary net position of the ND Public Employees Retirement System (NDPERS) defined benefit pension and OPEB plans, and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2 - Cash and Cash Equivalents

Custodial Credit Risk

State law generally requires that all state funds be deposited in the Bank of North Dakota. NDCC 21-04-01 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota. Also, NDCC 6-09-07 states, “[a]ll state funds ... must be deposited in the Bank of North Dakota” or must be deposited in accordance with constitutional and statutory provisions.

Pension Trust Fund

Deposits held by the Pension Trust Fund at June 30, 2023 were deposited in the Bank of North Dakota. At June 30, 2023 and 2022, the carrying amount of TFFR's deposits was \$23,963,066 and \$23,308,382 respectively, and the bank balance was \$23,995,175 and \$23,347,141, respectively. The difference results from checks outstanding or deposits not yet processed by the bank. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10.

Investment Trust Funds

Certificates of deposit, an insurance pool cash account, a pension pool cash account and a Legacy Fund cash account are recorded as investments and have a cost and carrying value of \$203,316,871 and \$239,796,384 at June 30, 2023 and 2022, respectively. In addition, these funds carry cash and cash equivalents totaling \$866,982 and \$426,172 at June 30, 2023 and 2022, respectively. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits held at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10.

North Dakota Retirement and Investment Office

Notes to the Financial Statements

June 30, 2023 and 2022

Note 3 - Investments

The investment policy of the SIB is governed by NDCC 21-10. The SIB shall apply the prudent investor rule in investing for funds under its supervision. The “prudent investor rule” means that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the teachers’ fund for retirement and the public employees’ retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds’ investment goals and objectives.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The price of a debt security typically moves in the opposite direction of the change in interest rates. The SIB does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates.

At June 30, 2023 and 2022, the following tables show the investments by investment type and maturity (expressed in thousands).

2023	Total Fair Value	Less than 1 Year	1-6 Years	6-10 Years	More than 10 Years
Asset Backed Securities	\$ 439,098	\$ 3,843	\$ 127,372	\$ 178,924	\$ 128,959
Collateralized Bonds	1,652	-	-	1,652	-
Commercial Mortgage-Backed	322,945	5	3,839	9,147	309,954
Commercial Paper	106,717	106,717	-	-	-
Corporate Bonds	1,920,369	83,902	1,085,624	350,601	400,242
Corporate Convertible Bonds	11,596	-	7,058	81	4,457
Government Agencies	32,016	6,347	17,763	5,737	2,169
Government Bonds	774,763	6,537	287,578	73,578	407,070
Gov't Mortgage Backed	1,264,892	91	6,455	14,156	1,244,190
Gov't-issued CMB	18,255	55	3,967	9,243	4,990
Index Linked Government Bonds	635,558	8,677	358,588	123,678	144,615
Municipal/Provincial Bonds	22,222	2,171	3,766	3,125	13,160
Non-Government Backed CMOs	106,134	806	4,986	6,040	94,302
Repurchase Agreements	(786)	(786)	-	-	-
Short Term Bills and Notes	14,388	14,388	-	-	-
Sukuk	2,506	-	1,282	1,224	-
Funds/Pooled Investments	1,432,690	-	685,151	596,419	151,120
Total Debt Securities	\$ 7,105,015	\$ 232,753	\$ 2,593,429	\$ 1,373,605	\$ 2,905,228

North Dakota Retirement and Investment Office

Notes to the Financial Statements

June 30, 2023 and 2022

2022	Total Fair Value	One Year or Less	1-6 Years	6-10 Years	More than 10 Years
Asset Backed Securities	\$ 469,733	\$ 183	\$ 119,979	\$ 189,285	\$ 160,286
Bank Loans	15,007	17	13,470	1,520	-
Collateralized Bonds	2,446	-	-	2,446	-
Commercial Mortgage-Backed	362,729	176	5,125	12,587	344,841
Commercial Paper	27,977	27,977	-	-	-
Corporate Bonds	2,076,494	62,357	1,124,124	445,072	444,941
Corporate Convertible Bonds	19,220	-	9,084	-	10,136
Government Agencies	35,569	2,379	23,136	6,197	3,857
Government Bonds	735,584	3,232	309,087	70,159	353,106
Gov't Mortgage Backed	688,660	646	6,414	8,504	673,096
Gov't-issued CMB	13,960	1	3,398	9,465	1,096
Index Linked Government Bonds	650,572	25,351	358,250	142,972	123,999
Municipal/Provincial Bonds	26,577	1,709	5,036	3,397	16,435
Non-Government Backed CMOs	144,864	1,368	4,681	19,448	119,367
Repurchase Agreements	37,100	37,100	-	-	-
Short Term Bills and Notes	34,128	34,128	-	-	-
Sukuk	2,530	-	1,300	1,230	-
Funds/Pooled Investments	1,576,573	-	1,015,783	288,608	272,182
Total Debt Securities	\$ 6,919,723	\$ 196,624	\$ 2,998,867	\$ 1,200,890	\$ 2,523,342

In the tables above, the fair values of inflation indexed bonds are reflected in the columns based on their stated maturity dates. The principal balances of these bonds are adjusted every six months based on the inflation index for that period.

Some investments are more sensitive to interest rate changes than others. Variable and floating rate collateralized mortgage obligations (CMOs), asset-backed securities (ABS), interest-only and principal-only securities are examples of investments whose fair values may be highly sensitive to interest rate changes.

Interest-only (IO) and principal-only (PO) strips are transactions which involve the separation of the interest and principal components of a security. They are highly sensitive to prepayments by mortgagors, which may result from a decline in interest rates. The SIB held POs valued at \$4.8 million and \$4.9 million and IOs valued at \$18.9 million and \$21.4 million at June 30, 2023 and 2022, respectively. The SIB has no policy regarding IO or PO strips.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Investment Board maintains a highly diversified portfolio of debt securities encompassing a wide range of credit ratings. Although the SIB has no overall policy regarding credit risk, each debt securities manager is given a specific set of guidelines to invest within based on the mandate for which it was hired. The guidelines specify in which range of credit the manager may invest. These ranges include investment grade and below investment grade categories. The following tables present the SIB's ratings as of June 30, 2023 and 2022, (expressed in thousands).

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2023	Total Fair Value	Credit Rating*										
		AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
Asset Backed Securities	\$ 439,098	\$ 241,736	\$ 60,920	\$ 47,744	\$ 17,512	\$ 1,684	\$ 498	\$ 2,437	\$ 741	\$ -	\$ 607	\$ 65,219
Collateralized Bond	1,652	1,652	-	-	-	-	-	-	-	-	-	-
Commercial Mortgage Backed	322,945	246,189	10,782	8,128	8,600	1,037	2,449	1,604	18	-	-	44,138
Commercial Paper	106,717	-	-	57,240	-	-	-	-	-	-	-	49,477
Corporate Bonds	1,920,369	11,430	53,474	503,201	1,089,641	189,402	52,693	11,467	39	25	117	8,880
Corporate Convertible Bonds	11,596	-	-	-	1,426	4,457	-	1,852	-	-	-	3,861
Govt Agencies	31,455	3,467	3,411	6,306	10,135	3,682	-	-	-	-	-	4,454
Govt Bonds	54,168	-	2,556	1,881	29,067	13,418	2,395	852	-	-	-	3,999
Govt Mortgage Backed	1,062,793	-	1,032,051	9,381	17,876	1,888	388	-	-	-	-	1,209
Govt Issued CMB	15,871	2,239	13,029	-	603	-	-	-	-	-	-	-
Index Linked Government Bonds	117,046	-	-	-	-	-	-	-	-	-	-	117,046
Municipal/Provincial Bonds	22,222	2,764	11,674	5,481	629	723	-	951	-	-	-	-
Non-Govt Backed CMOs	106,134	28,615	7,466	14,956	6,784	3,335	938	378	361	-	-	43,301
Repurchase Agreements	(786)	-	-	-	-	-	-	-	-	-	-	(786)
Short Term Bills & Notes	4,479	-	4,479	-	-	-	-	-	-	-	-	-
Sukuk	2,506	-	-	-	2,506	-	-	-	-	-	-	-
Funds/Pooled Investments	1,420,254	448,497	263,424	511,166	66,210	18,471	26,042	-	-	-	-	86,444
Total Credit Risk of Debt Securities	\$ 5,638,519	\$ 986,589	\$ 1,463,266	\$ 1,165,484	\$ 1,250,989	\$ 238,097	\$ 85,403	\$ 19,541	\$ 1,159	\$ 25	\$ 724	\$ 427,242
US Govt & Agencies **	1,466,496											
Total Debt Securities	\$ 7,105,015											

2022	Total Fair Value	Credit Rating*										
		AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
Asset Backed Securities	\$ 469,733	\$ 250,460	\$ 65,209	\$ 44,886	\$ 34,041	\$ 3,615	\$ 1,396	\$ 2,589	\$ 1,336	\$ -	\$ 690	\$ 65,511
Bank Loans	15,007	-	-	-	120	3,840	8,268	2,762	-	-	-	17
Collateralized Bond	2,446	2,446	-	-	-	-	-	-	-	-	-	-
Commercial Mortgage Backed	362,729	265,816	14,871	10,267	7,395	12,384	4,054	1,727	86	11	-	46,118
Commercial Paper	27,977	-	-	-	-	-	-	-	-	-	-	27,977
Corporate Bonds	2,076,494	10,432	62,912	476,167	1,150,129	254,728	92,050	19,580	248	178	201	9,869
Corporate Convertible Bonds	19,220	-	-	-	2,441	4,583	5,773	2,584	-	-	-	3,839
Govt Agencies	34,793	3,524	5,031	7,068	11,824	1,708	-	336	-	-	-	5,302
Govt Bonds	668,660	604,042	5,187	2,496	34,422	14,473	2,120	2,700	-	-	-	3,220
Govt Mortgage Backed	629,454	-	590,051	10,212	17,357	7,178	4,570	-	-	-	-	86
Govt Issued CMB	13,865	1,762	11,252	-	851	-	-	-	-	-	-	-
Index Linked Government Bonds	-	-	-	-	-	-	-	-	-	-	-	-
Municipal/Provincial Bonds	26,577	2,440	12,963	6,404	3,486	868	-	416	-	-	-	-
Non-Govt Backed CMOs	144,864	42,071	9,160	18,205	17,844	7,379	1,606	481	906	35	-	47,177
Repurchase Agreements	37,100	37,100	-	-	-	-	-	-	-	-	-	-
Short Term Bills & Notes	9,626	-	1,809	7,817	-	-	-	-	-	-	-	-
Sukuk	2,530	-	-	-	2,530	-	-	-	-	-	-	-
Funds/Pooled Investments	1,576,573	461,824	271,148	682,937	82,142	17,553	30,030	-	-	-	-	30,939
Total Credit Risk of Debt Securities	6,117,648	\$ 1,681,917	\$ 1,049,593	\$ 1,266,459	\$ 1,364,582	\$ 328,309	\$ 149,867	\$ 33,175	\$ 2,576	\$ 224	\$ 891	\$ 240,055
US Govt & Agencies **	802,075											
Total Debt Securities	\$ 6,919,723											

- * Ratings are determined in the following order:
1. S&P rating
 2. Moody's rating
 3. Fitch rating
 4. Manager-determined rating (internal rating)
 5. If no ratings available using steps 1-4, then shown as not rated.

** US government agency securities explicitly guaranteed by the US government are categorized here. Credit ratings of US government agency securities that are only implicitly guaranteed by the US

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government are categorized accordingly in the main body of these tables. Implicitly guaranteed agency securities included in the *Gov't Agencies*, *Gov't Bonds*, *Gov't Mortgage Backed*, *Gov't Issued CMB*, *Index Linked Gov't Bonds*, and *Short Term Bills and Notes* categories are issued by FNMA, FHLB, FHLMC, and SLMA.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of an investment in a single issuer. As of June 30, 2023 and 2022, the SIB's portfolio has no single issuer exposure that comprises 5% or more of the overall portfolio, excluding investments issued or explicitly guaranteed by the US government and investments in mutual funds, external investment pools, and other pooled investments. Therefore, there is no concentration of credit risk.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Although the SIB does not have a formal investment policy governing foreign currency risk, the SIB manages its exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios to limit foreign currency and security risk. The SIB's exposure to foreign currency risk is presented in the following tables as of June 30, 2023 and 2022 (expressed in thousands).

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2023

Currency	Short-Term	Debt	Equity	Real Estate	Total
Argentine peso	\$ 12	\$ -	\$ -	\$ -	\$ 12
Australian dollar	9,127	-	6,168	-	15,295
Brazilian real	(30)	-	3,955	-	3,925
British pound sterling	(25,935)	18,162	90,232	-	82,459
Canadian dollar	(1,533)	288	25,969	-	24,724
Chilean peso	(315)	-	-	-	(315)
Chinese yuan renminbi	301	-	-	-	301
Danish krone	(62)	-	20,407	-	20,345
Euro	(24,754)	25,571	111,552	610	112,979
Hong Kong Off-Shore-Chinese yuan renminbi	4,239	-	12,233	-	16,472
Hong Kong dollar	-	-	20,282	-	20,282
Hungarian forint	1	-	-	-	1
Indian rupee	6,644	-	-	-	6,644
Indonesian rupiah	1,174	-	-	-	1,174
Japanese yen	44,521	(40,083)	35,267	-	39,705
Mexican peso	(337)	-	-	-	(337)
New Israeli shekel	(1)	-	-	-	(1)
New Taiwan dollar	370	-	-	-	370
Norwegian krone	87	-	5,532	-	5,619
Peruvian nuevo sol	202	-	-	-	202
Polish zloty	(2)	-	-	-	(2)
Russian ruble	276	-	2,092	-	2,368
Singapore dollar	(3,943)	-	-	-	(3,943)
South Korean won	(338)	-	6,011	-	5,673
Swedish krona	562	-	26,479	-	27,041
Swiss franc	2	-	28,659	-	28,661
Thai baht	4,432	-	-	-	4,432
International commingled funds (various currencies)	-	-	2,690,182	32,629	2,722,811
Total international investment securities	\$ 14,700	\$ 3,938	\$ 3,085,020	\$ 33,239	\$ 3,136,897

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2022

Currency	Short-Term	Debt	Equity	Real Estate	Total
Argentine peso	\$ 176	\$ 177	\$ -	\$ -	\$ 353
Australian dollar	(5,078)	-	49,149	-	44,071
Brazilian real	204	524	8,083	-	8,811
British pound sterling	(43,460)	44,164	192,397	-	193,101
Canadian dollar	(283)	301	50,088	-	50,106
Chilean peso	(254)	-	-	-	(254)
Danish krone	(99)	379	52,240	-	52,520
Euro	(5,557)	4,565	360,595	533	360,136
Hong Kong Off-Shore-Chinese yuan renminbi	(4,700)	-	-	-	(4,700)
Hong Kong dollar	1,369	-	43,948	-	45,317
Hungarian forint	(365)	-	2,161	-	1,796
Indonesian rupiah	50	-	1,370	-	1,420
Japanese yen	18,329	(15,315)	169,453	-	172,467
Mexican peso	(682)	1,368	1,451	-	2,137
New Israeli shekel	391	-	2,805	-	3,196
New Taiwan dollar	177	-	8,398	-	8,575
New Zealand dollar	(145)	-	3,309	-	3,164
Norwegian krone	184	-	11,402	-	11,586
Peruvian nuevo sol	(1,016)	793	-	-	(223)
Polish zloty	(439)	-	-	-	(439)
Singapore dollar	142	-	8,667	-	8,809
South African rand	(2)	-	783	-	781
South Korean won	(59)	-	8,298	-	8,239
Swedish krona	175	-	53,615	-	53,790
Swiss franc	525	-	83,962	-	84,487
Thai baht	102	-	2,908	-	3,010
Turkish lira	20	-	1,143	-	1,163
International commingled funds (various currencies)	-	-	1,433,227	33,273	1,466,500
Total international investment securities	\$ (40,295)	\$ 36,956	\$ 2,549,452	\$ 33,806	\$ 2,579,919

Negative amounts represent short positions.

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Derivative Securities

Derivatives are financial arrangements between two parties whose payments are based on, or “derived” from, the performance of some agreed upon benchmark. The investment policies of the SIB’s clients allow the use of derivative securities to hedge or replicate underlying exposures but not for speculation. All derivatives are considered investment derivative instruments. The fair value of all derivative securities is reported in the statement of net position. At June 30, 2023 and 2022, the SIB had four types of derivative securities: futures, options, swaps and currency forwards.

Futures

Futures represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specific price. Futures contracts are traded on organized exchanges (exchange traded) thereby minimizing the SIB’s counterparty risk. The net change in the futures contracts’ value is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included in net change in fair value of investments in the statement of changes in net position and totaled \$64.7 and \$(68.4) million for fiscal years 2023 and 2022, respectively. At June 30, 2023 and 2022, the SIB investment portfolio had the notional futures balances shown below (expressed in thousands).

<u>Futures</u>	Notional Value	
	June 30, 2023	June 30, 2022
Cash & Cash Equivalent Derivative Futures		
Long	\$ 139,071	\$ 590,720
Short	(394,403)	(83,089)
Commodity Derivative Futures		
Short	(81,977)	(12,092)
Equity Derivative Futures		
Long	446,414	501,730
Fixed Income Derivative Futures		
Long	755,688	1,050,219
Short	(922,277)	(915,728)
Total Futures	<u>\$ (57,484)</u>	<u>\$ 1,131,760</u>

Options

Options represent or give buyers the right, but not the obligation, to buy (call) or sell (put) an asset at a preset price over a specified period. Options are traded on organized exchanges (exchange traded) thereby minimizing the SIB’s counterparty credit risk. The option’s price is usually a small percentage of the underlying asset’s value. As a seller of a financial option, the SIB, through its investment manager, receives a premium at the beginning of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. As a buyer of a financial option, the SIB, through its investment manager, pays a premium at the beginning of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. Gains and losses on options are determined based on fair values and recorded with the net change in fair value of investments in the statement of changes in net position and totaled \$3.5 million and \$0.6 million in fiscal years 2023 and 2022, respectively. At June 30, 2023 and 2022, the SIB investment portfolio had the following option balances (expressed in thousands).

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<u>Options</u>	Fair Value	
	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Cash & Other Options		
Call	\$ (170)	\$ (1,033)
Put	(1,931)	(2,834)
Equity Options		
Call	438	1,074
Fixed Income Options		
Call	(57)	(325)
Put	(277)	(269)
Total Options	<u>\$ (1,997)</u>	<u>\$ (3,387)</u>

Swaps

A swap is a derivative in which counterparties exchange certain benefits of one party's financial instrument for those of the other party's financial instrument. Specifically, the two counterparties agree to exchange one stream of cash flows for another stream. The SIB, through its investment managers, has entered into various swap agreements in an attempt to manage its exposure to interest rate, inflation, credit and total return risk.

Gains and losses on swaps are determined based on fair values and are recorded with the net change in fair value of investments in the statement of changes in net position and totaled \$(670) thousand \$(19.5) million for fiscal years 2023 and 2022, respectively. The maximum loss that would be recognized at June 30, 2023 and 2022, if all counterparties failed to perform as contracted is \$2.5 million and \$3 million, respectively. Swap fair values are determined by a third-party pricing source. At June 30, 2023 and 2022, the SIB's investment portfolio had the swap fair value balances as shown below (expressed in thousands).

Credit Default Swaps

Credit risk represents the exposure to fair value losses arising from a credit event such as default, failure to pay, restructuring or bankruptcy. In a credit default swap (CDS) contract, the protection buyer of the CDS makes a series of payments to the protection seller and, in exchange, receives a payoff if the credit instrument experiences a credit event. CDS contracts are also used to establish exposure to a desired credit instrument.

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Counterparty/Moody's Rating	Notional Amount		Expiration Date Range	Fair Value	
	June 30, 2023	June 30, 2022		June 30, 2023	June 30, 2022
Bank of America/Aa2 (2 contracts)	\$ -	\$ (1,105)	2022	\$ -	\$ 2
Bank of America/Aa2 (5 contracts)	(128,400)		2027 - 2028	2,145	
Barclays Capital Inc/A1 (2 contracts)	-	(10,659)	2027	-	(262)
Barclays Capital Inc/A1 (1 contracts)	(4,000)	(100)	2028	(29)	(8)
BNP Paribas Sa Paris/Aa3 (1 contract)	-	130	2027	-	(22)
BNP Paribas Sa Paris/Aa3 (1 contract)	(100)		2027	(4)	
Citibank/Aa3 (24 contracts)	-	(400)	2023	-	(27)
Citibank/A1 (2 contracts)	(400)	2,160	2024 - 2027	(9)	(143)
Citibank/A1 (2 contract)	-		2024 - 2027	-	
Citigroup Global Markets/A1 (15 contracts)	-	(775)	2022 - 2028	-	(24)
Citigroup Global Markets/A1 (11 contracts)	(4,655)		2023 - 2028	61	
Credit Suisse Intl London/A1 (1 contracts)	-		2023	-	
Goldman Sachs/A2 (6 contracts)	-	(2,400)	2023 - 2027	-	(143)
Goldman Sachs/A2 (6 contracts)	(2,400)		2023 - 2027	(52)	
JP Morgan Chase/Aa2 (1 contract)	(400)		2024	(4)	
Morgan Stanley/A1 (2 contracts)	-	(800)	2024 - 2027	-	(58)
Morgan Stanley/A1 (1 contract)	28,000		2028	(432)	
Wells Fargo Bank/Aa2 (13 contracts)	-		2022 - 2028	-	
Wells Fargo Bank/Aa2 (13 contracts)	(924)	18,733	2023 - 2028	(27)	(14)
Total Credit Default Swaps	\$ (113,279)	\$ 4,784		\$ 1,649	\$ (699)

The notional amount may be positive or negative, depending on whether the position is long or short, respectively.

Interest Rate Swaps

Interest rate risk represents the exposure to fair value losses arising from future changes in prevailing market interest rates. In the most common type of interest rate swap arrangement, one party agrees to pay fixed interest payments on designated dates to a counterparty, who in turn agrees to make return interest payments that float with some reference rate.

Counterparty/Moody's Rating	Notional Amount		Expiration Date Range	Fair Value	
	June 30, 2023	June 30, 2022		June 30, 2023	June 30, 2022
Bank of America/Aa2 (5 contracts)	\$ 48,338	\$ -	2024 - 2041	\$ 708	\$ -
Citigroup Global Markets/A1 (58 contracts)	-	175,583	2022 - 2052	-	470
Citigroup Global Markets/A1 (47 contracts)	93,429	-	2025 - 2053	1,093	-
Credit Suisse First Boston/A1 (4 contracts)	-	7,026	2027 - 2029	-	-
JP Morgan Chase/Aa2 (18 contracts)	61,954	-	2024 - 2034	948	-
JP Morgan Chase/Aa2 (14 contracts)	-	13,445	2023 - 2034	-	794
Morgan Stanley/A1 (2 contracts)	-	82,500	2024 - 2025	-	(3,419)
Morgan Stanley/A1 (8 contracts)	64,670	-	2025 - 2033	(632)	-
Wells Fargo Bank/Aa2 (13 contracts)	116,255	-	2025 - 2052	1,942	-
Wells Fargo Bank/Aa2 (23 contracts)	-	369,345	2023 - 2052	-	(414)
Total Interest Rate Swaps	\$ 384,646	\$ 647,899		\$ 4,059	\$ (2,569)

The notional amount may be positive or negative, depending on whether the position is long (fixed rate payer) or short (floating rate payer), respectively.

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Inflation Swaps

Inflation risk represents the exposure to fair value losses arising from future changes in prevailing market inflation. In an inflation swap, one party pays a fixed rate on a notional principal amount, while the other party pays a floating rate linked to an inflation index, such as the Consumer Price Index (CPI).

Counterparty/Moody's Rating	Notional Amount		Expiration Date Range	Fair Value	
	June 30, 2023	June 30, 2022		June 30, 2023	June 30, 2022
Goldman Sachs/A2 (2 contracts)	\$ 18,956	\$ -	2023	\$ (452)	\$ -
JP Morgan Chase/Aa2 (1 contracts)	2,313		2023	38	
Total Inflation Swaps	<u>\$ 21,269</u>	<u>\$ -</u>		<u>\$ (414)</u>	<u>\$ -</u>

The notional amount may be positive or negative, depending on whether the position is long (fixed rate payer) or short (floating rate payer), respectively.

Total Return Swaps

A total return swap is an agreement in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of an underlying asset (income and capital gains). The underlying asset, or reference asset, is owned by the party receiving the set rate payment.

Counterparty/Moody's Rating	Notional Amount		Expiration Date Range	Fair Value	
	June 30, 2023	June 30, 2022		June 30, 2023	June 30, 2022
Goldman Sachs/A2 (1 contract)	\$ 6,310	\$ -	2023	\$ (227)	\$ -
JP Morgan Chase/Aa2 (3 contracts)	15,725	-	2023	(289)	-
Total Total Return Swaps	<u>\$ 22,035</u>	<u>\$ -</u>		<u>\$ (516)</u>	<u>\$ -</u>

The notional amount may be positive or negative, depending on whether the position is long (fixed rate payer) or short (floating rate payer), respectively.

Currency Forwards

Currency forwards represent forward exchange contracts that are entered into in order to manage the exposure to changes in currency exchange rates on the currency denominated portfolio holdings. A forward exchange contract is a commitment to purchase (positive) or sell (negative) a currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the net change in fair value of investments in the statements of changes in net position and totaled \$(2.3) million and \$17.9 million for fiscal years 2023 and 2022, respectively. At June 30, 2023 and 2022, the SIB's investment portfolio included the currency forwards balances shown below (expressed in thousands).

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	Currency	Cost	Purchases	Sales	Fair Value	
					6/30/2023	6/30/2022
AUD	Australian dollar	\$ 9,174	\$ 11,697	\$ (2,523)	\$ 9,126	\$ (5,364)
BRL	Brazilian real	(97)	413	(510)	(118)	(165)
GBP	British pound sterling	(28,584)	15,054	(43,638)	(29,110)	(45,640)
CAD	Canadian dollar	(57)	36	(94)	(58)	(316)
CLP	Chilean peso	(311)	-	(311)	(315)	(253)
CNH	Chinese offshore	(25)	-	(25)	(23)	(9,050)
CNY	Chinese Yuan	318	318	-	301	-
DKK	Danish Krone	(62)	55	(116)	(63)	(601)
EUR	Euro	(70,119)	60,154	(130,274)	(70,774)	(88,167)
HUF	Hungarian Forint	0	-	-	-	555
IDR	Indonesia Rupiah	(116)	244	(360)	(115)	-
INR	Indian Rupee	6,628	6,628	-	6,644	-
JPY	Japanese yen	4,980	5,672	(692)	4,693	(8,206)
MXN	Mexican peso	(339)	2	(341)	(363)	463
ILS	New Israeli shekel	-	-	-	-	(3,315)
NZD	New Zealand dollar	-	-	-	-	653
NOK	Norwegian Krone	-	-	-	-	399
PEN	Peruvian nuevo sol	225	621	(396)	202	(1,016)
PLN	Poland Zloty	-	-	-	-	665
SGD	Singapore Dollar	(3,989)	-	(3,989)	(3,948)	-
ZAR	South African rand	-	-	-	-	(861)
KRW	South Korean won	(348)	1	(348)	(338)	(346)
THB	Thai Baht	4,535	4,535	-	4,432	-
TWD	Taiwan Dollar	376	2,065	(1,689)	370	-
USD	United States dollar	77,812	185,308	(107,496)	77,812	164,414
Total forwards subject to currency risk					\$ (1,645)	\$ 3,849

Derivative Interest Rate Risk

Derivative interest rate risk is the risk that changes in interest rates will adversely affect the value of an interest rate-based derivative investment. The SIB does not have a formal investment policy regarding such derivative investments. At June 30, 2023 and 2022, the tables below show the SIB's derivative investments subject to interest rate risk (expressed in thousands).

2023	Total Notional Value	3 months or less	3 to 6 months	6 to 12 months	1-5 years	5-10 years	Greater than 10 years
							years
Futures-interest rate contracts	\$ (421,921)	\$ (537,437)	\$ 371,085	\$ (170,589)	\$ (84,980)	\$ -	\$ -
Futures-commodity contracts	(81,977)	-	(81,977)	-	-	-	-
Total	\$ (503,898)	\$ (537,437)	\$ 289,108	\$ (170,589)	\$ (84,980)	\$ -	\$ -

	Total Fair Value	3 months or less	3 to 6 months	6 to 12 months	1-5 years	5-10 years	Greater than 10
							years
Options - interest rate contracts	\$ (450)	\$ (147)	\$ (191)	\$ (112)	\$ -	\$ -	\$ -
Options on futures	(1,985)	78	(858)	(941)	(264)	-	-
Options - Foreign Exchange Contracts	-	-	-	-	-	-	-
Swaps - interest rate contracts	3,543	(448)	(38)	(22)	(2,537)	1,392	5,196
Swaps - credit contracts	1,649	-	3	13	2,070	(437)	-
Total	\$ 2,757	\$ (517)	\$ (1,084)	\$ (1,062)	\$ (731)	\$ 955	\$ 5,196

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2022	Total Notional Value	3 months or less	3 to 6 months	6 to 12 months	1-5 years	5-10 years	Greater than 10 years
Futures-interest rate contracts	\$ 642,122	\$ (681,760)	\$ 1,065,168	\$ 151,913	\$ 106,801	\$ -	\$ -
Futures-commodity contracts	(12,092)	-	(12,092.00)	-	-	-	-
Total	<u>\$ 630,030</u>	<u>\$ (681,760)</u>	<u>\$ 1,053,076</u>	<u>\$ 151,913</u>	<u>\$ 106,801</u>	<u>\$ -</u>	<u>\$ -</u>
	Total Fair Value	3 months or less	3 to 6 months	6 to 12 months	1-5 years	5-10 years	Greater than 10 years
Options - interest rate contracts	\$ (466)	\$ (357)	\$ -	\$ -	\$ (109)	\$ -	\$ -
Options on futures	(3,853)	(570)	(2,687)	(295)	(301)	-	-
Options - credit contracts	(142)	(142)	-	-	-	-	-
Swaps - interest rate contracts	(2,569)	-	-	13	(4,471)	(4,701)	6,590
Swaps - credit contracts	(699)	2	3	(52)	(483)	(169)	-
Total	<u>\$ (7,729)</u>	<u>\$ (1,067)</u>	<u>\$ (2,684)</u>	<u>\$ (334)</u>	<u>\$ (5,364)</u>	<u>\$ (4,870)</u>	<u>\$ 6,590</u>

Fair Value Measurement

The SIB categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

Level 1 Unadjusted quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.

Level 3 Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

The following tables show the fair value leveling of the SIB's investment portfolio at June 30, 2023 and 2022 (expressed in thousands).

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Notes to the Financial Statements

June 30, 2023 and 2022

2023	Dollars in (000)			
	Fair Value 6/30/23	Fair Value Measures Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Short Term Securities				
Commercial Paper	\$ 106,717	\$ -	\$ 106,717	\$ -
Short Term Bills and Notes	14,388	-	14,388	-
Total Short Term Securities	121,105	-	121,105	-
Fixed Income Investments				
Asset Backed Securities	439,098	-	438,500	598
Bank Loans	-	-	-	-
Collateralized Bonds	1,652	-	1,652	-
Commercial Mortgage-Backed	322,945	-	322,945	-
Corporate Bonds	1,918,998	-	1,918,998	-
Corporate Convertible Bonds	11,596	-	11,596	-
Funds - Fixed Income ETF	16,687	16,687	-	-
Government Agencies	32,016	-	32,016	-
Government Bonds	774,763	-	774,763	-
Government Mortgage Backed Securities	1,264,892	-	1,264,823	69
Gov't-issued Commercial Mortgage-Backed	18,255	-	18,255	-
Index Linked Government Bonds	635,558	-	635,558	-
Municipal/Provincial Bonds	22,222	-	22,222	-
Non-Government Backed C.M.O.s	102,353	-	102,353	-
Sukuk	2,506	-	2,506	-
Total Fixed Income Investments	5,563,541	16,687	5,546,187	667
Equity Investments				
Common Stock	3,124,600	3,124,202	-	398
Convertible Equity	290	290	-	-
Funds - Equities ETF	282,983	282,983	-	-
Preferred Stock	-	-	-	-
Stapled Securities	-	-	-	-
Total Equity Investments	3,407,873	3,407,475	-	398
Derivative Investments				
Exchange Cleared Swaps	5,778	-	5,778	-
Options	(1,997)	(1,547)	(450)	-
Swaps	(1,000)	-	(1,000)	-
Total Derivative Investments	2,781	(1,547)	4,328	-
Total Investments by Fair Value Level	\$ 9,095,300	\$ 3,422,615	\$ 5,671,620	\$ 1,065

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June 30, 2023 and 2022

	Dollars in (000)			
		Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Investments Measured at the Net Asset Value (NAV)				
Commingled Funds-Debt	\$ 1,416,003	\$ -	Daily, monthly	1-15 days
Commingled Funds-Equities	3,223,944	-	Daily, monthly	1-15 days
Distressed Debt	211,245	-	Quarterly, Not eligible	60 days
Long/Short	811,402	-	Monthly	15 days
Mezzanine Debt	1	-	Not eligible	Not eligible
Private Credit	623,507	120,700	Not eligible	Not eligible
Private Equity	1,034,930	540,130	Not eligible	Not eligible
Real Assets	2,814,301	455,448	Quarterly, Not eligible	30-90 days
Total Investments Measured at the NAV	\$ 10,135,333	\$ 1,116,278		
Investments at Other Than Fair Value				
Cash and adjustments to cash	\$ 34,099			
Bank Certificates of Deposit	180,767			
Other miscellaneous securities	5,211			
Repurchase Agreements	(786)			
Total Investments at Other Than Fair Value	\$ 219,291			
Total Investments	\$ 19,449,924			

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June 30, 2023 and 2022

2022	Fair Value Measures Using			
	Fair Value 6/30/22	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Short Term Securities				
Commercial Paper	\$ 27,977	\$ -	\$ 27,977	\$ -
Short Term Bills and Notes	34,128	-	34,128	-
Total Short Term Securities	62,105	-	62,105	-
Fixed Income Investments				
Asset Backed Securities	469,733	-	469,733	-
Bank Loans	15,007	-	15,007	-
Collateralized Bonds	2,446	-	2,446	-
Commercial Mortgage-Backed	362,729	-	362,729	-
Corporate Bonds	2,075,973	-	2,074,660	1,313
Corporate Convertible Bonds	19,220	-	19,220	-
Funds - Fixed Income ETF	16,829	16,829	-	-
Government Agencies	35,569	-	35,569	-
Government Bonds	735,584	-	735,584	-
Government Mortgage Backed Securities	688,660	-	688,660	-
Govt-issued Commercial Mortgage-Backed	13,960	-	13,960	-
Index Linked Government Bonds	650,572	-	650,572	-
Municipal/Provincial Bonds	26,577	-	26,577	-
Non-Government Backed C.M.O.s	140,879	-	140,879	-
Sukuk	2,530	-	2,530	-
Total Fixed Income Investments	5,256,268	16,829	5,238,126	1,313
Equity Investments				
Common Stock	4,727,266	4,726,869	-	397
Convertible Equity	5,574	5,574	-	-
Funds - Equities ETF	122,419	122,419	-	-
Preferred Stock	5,431	3,130	2,301	-
Rights/Warrants	-	-	-	-
Stapled Securities	1,311	1,311	-	-
Total Equity Investments	4,862,001	4,859,303	2,301	397
Derivative Investments				
Exchange Cleared Swaps	(2,988)	-	(2,988)	-
Options	(3,387)	(2,921)	(466)	-
Swaps	(280)	-	(280)	-
Total Derivative Investments	(6,655)	(2,921)	(3,734)	-
Total Investments by Fair Value Level	\$ 10,173,719	\$ 4,873,211	\$ 5,298,798	\$ 1,710

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Dollars in (000)				
Investments Measured at the Net Asset Value (NAV)		Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Commingled Funds-Debt	\$ 1,559,743	\$ -	Daily, monthly	1-15 days
Commingled Funds-Equities	1,547,266	-	Daily, monthly	1-15 days
Distressed Debt	211,353	-	Quarterly, Not eligible	60 days
Long/Short	284,678	-	Monthly	15 days
Mezzanine Debt	169	8,499	Not eligible	Not eligible
Private Credit	567,890	130,700	Not eligible	Not eligible
Private Equity	761,808	768,744	Not eligible	Not eligible
Real Assets	2,408,855	662,888	Quarterly, Not eligible	30-90 days
Total Investments Measured at the NAV	\$ 7,341,762	\$ 1,570,831		
Investments at Other Than Fair Value				
Cash and adjustments to cash	\$ 199,035			
Bank Certificates of Deposit	192,033			
Other miscellaneous securities	4,815			
Repurchase Agreements	37,100			
Total Investments at Other Than Fair Value	\$ 432,983			
Total Investments	\$ 17,948,464			

Securities classified in Level 1 are valued using quoted prices in active markets for those securities. Securities classified in Level 2 and Level 3 are valued using methodologies such as various bid evaluations, market averages and other matrix pricing techniques as well as values derived from associated traded securities or last trade data. In instances where inputs used to measure fair value fall into different levels, the fair value is categorized based on the lowest level input that is significant to the valuation.

Investments valued at the net asset value (NAV) per share (or its equivalent) have been classified separately in the tables above and include investments considered to be *alternative investments* as defined by the AICPA. The definition includes investments for which a readily determinable fair value does not exist (that is, investments not listed on national exchanges or over-the-counter markets, or for which quoted market prices are not available from sources such as financial publications, the exchanges, or NASDAQ). These types of investments can be held within any of the asset classes used by the SIB based on underlying portfolio holdings and analysis of risk and return relationships. These investments can be structured in different ways, including limited partnerships, limited liability companies, common trusts and mutual funds. Some are closed-ended with a specific life and capital commitment while others are open-ended with opportunity for ad hoc contributions or withdrawals and termination upon proper notice.

Commingled/Mutual Funds — These types of funds are open-ended funds and may be utilized in equity or fixed income asset classes. They are funds made up of underlying securities that have readily available fair values (publicly traded stocks or bonds). The SIB owns units of these funds rather than the individual securities. Contributions or withdrawals from these funds can be made as needed, generally with daily or monthly liquidity, with a notice period of one to fifteen days. Because they are liquid funds, there are no unfunded commitments for these types of investments.

Distressed Debt — these include investments in the debt instruments of companies which may be publicly traded or privately held that are financially distressed and are either in bankruptcy or likely candidates for bankruptcy. Typical holdings are senior and subordinated debt instruments, mortgages and bank loans. The SIB is including these types of investments in its global fixed income allocations. As of June 30, 2023 and June 30, 2022, all unfunded commitments in the SIB distressed debt portfolios had been released. One of the funds in this category is not eligible for redemptions, while the other fund is eligible for redemptions with quarterly liquidity and 60 days notice.

Equity Long/Short — This strategy is a combination of long and short positions, primarily in publicly traded equities. The SIB utilizes this strategy, through a limited partnership structure, within its global equity allocations. This is an open-ended fund with monthly liquidity with a notice period of 15 days. There was no unfunded commitment as of June 30, 2023 and 2022.

Mezzanine Debt — This strategy is a hybrid of debt and equity financing. It is essentially debt capital that gives the lender the rights to convert to an ownership or equity interest in the company if the loan is not paid back in time and in full. It is generally subordinated to senior debt. The SIB utilizes this strategy, through a limited partnership structure, in its global fixed income allocation. The two funds in this category are not eligible for redemptions, have remaining lives of 1-2 years, and no unfunded commitments as of both June 30, 2023 and 2022.

Private Credit — These investments include loans to private companies, privately placed debt of public companies, or loans backed by real assets. Loan repayment can be derived from either cash flows from an operating company or cash flows generated by a physical or esoteric asset. Private debt is typically secured and has various protections/covenants in place. The debt is customized to the borrower's requirement, thus rendering it illiquid. The SIB includes these strategies within its global fixed income allocation through limited partnership-type structures. Private credit issuers may be investment grade but are typically below-investment grade and similar in some respect to the syndicated bank loan and high yield markets. The SIB participates in two senior private credit funds, commonly referred to as direct lenders, which are structured as custom managed accounts and are not eligible for redemptions during their investment lives. Due to the perpetual nature of the funds, the remaining investment lives fluctuate based on timing of new commitments, and the unfunded commitments totaled \$120.7 million and \$130.7 million as of June 30, 2023 and 2022, respectively.

Private Equity — Private Equity investments are typically private interests in corporations across different areas of the capital structure and in different stages of the corporations' development via limited partnership vehicles. Private Equity investments are illiquid and long term in nature (10-12 years), typically held until maturity. Private Equity portfolios generally have a "J-Curve Effect" whereby there are low to negative returns in the initial years due to the payment of investment management fees and initial funding of investments made by the General Partner during a period when investments are typically carried at cost and returns have not been realized. To diversify the program, Private Equity investments are made across business cycles, vintage years, and different strategies. The SIB has a dedicated sub-asset class for private equity investments within its global equity allocation in the pension pool and Legacy Fund. The SIB does not have the option to request redemptions from its private equity funds. The General Partner distributes earnings and proceeds from the sale of the underlying investments as transactions occur. The SIB has \$540.1 million and \$768.7 million in unfunded private equity commitments as of June 30, 2023 and 2022, respectively.

Venture Capital — these include investments in companies in a range of stages of development from start-up/seed stage, early stage, and later/expansion stage. Investments are typically made in years one through six and returns typically occur in years four through ten.

Buyouts — these include investments in funds that seek out and purchase underperforming or undervalued companies in order to improve them and sell them or take them public many years later. These funds are also often involved in management buyouts, which are buyouts conducted by the management of the company being purchased, and they often play key roles in leveraged buyouts, which are buyouts that are funded with borrowed money.

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Real Assets — These investments are intended to provide allocations to tangible assets that are expected to be inflation protected and provide performance above the inflation rate as indicated by the CPI. Investments are generally structured as limited partnerships or limited liability companies. Investments in Real Assets include:

Real Estate — includes investments in private vehicles through limited partnerships or commingled vehicles that have an ownership interest in direct real estate properties. The investment strategies may include “value added” strategies, which derive their return from both income and appreciation, “opportunistic”, which derive their return primarily through appreciation, and “alternative” which invest in less traditional types of property. Both domestic and international real estate funds are utilized. The SIB has a dedicated sub-asset class for these types of investments within global real assets. There are currently 11 real estate funds in the portfolio. Five of those funds are open-ended vehicles that accept redemption requests quarterly with a 30-90 day notification period. There were no unfunded commitments in the open-ended funds as of June 30, 2023 and 2022. The remaining six funds are closed-ended limited partnerships that are not eligible for redemptions. Those six funds have a combined unfunded commitment of \$158.7 million and \$250.5 million as of June 30, 2023 and 2022, respectively.

Timberland — includes investments in limited liability companies that have an ownership interest in properties where the value of the property is derived mainly from income-producing timber but also from the “higher and better use” value of the underlying land. The SIB includes these assets within its global real assets allocations. There are three funds in the portfolio, and they have no unfunded commitments. The funds are not eligible for redemption other than distributions of income and/or proceeds as determined by the investment manager. The funds have remaining lives of 1-4 years.

Infrastructure — includes investments in limited partnerships that have an ownership interest in transportation assets such as toll roads, tunnels and bridges; and regulated assets such as electricity transmission, gas and oil distribution and wastewater collection. Other possible investments would include communication assets and social infrastructure. The SIB includes these assets within its global real assets allocations. The infrastructure investments in the portfolio as of June 30, 2023 and 2022, include both open and closed-ended funds. The three open-ended funds have no unfunded commitments and are eligible for redemptions quarterly with 90 days notice. There may be a 3-12 month queue for receiving redemptions. The 17 closed-ended funds have unfunded commitments of \$296.8 million and \$412.4 million at June 30, 2023 and 2022, respectively, and are not eligible for redemptions.

Securities Lending

State statutes permit and the SIB has authorized the use of securities lending – loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. Northern Trust is the securities lending agent for the SIB. Securities are loaned versus collateral that may include cash, US government securities and irrevocable letters of credit. US securities are loaned versus collateral valued at 102% of the fair value of the securities plus any accrued interest. Non-US securities are loaned versus collateral valued at 105% of the fair value of the securities plus any accrued interest.

Non-cash collateral cannot be pledged or sold unless the borrower defaults. All securities loans can be terminated on demand by either the lender or the borrower, although the average term of SIB loans was approximately 74 and 70 days as of June 30, 2023 and 2022, respectively. Cash open collateral is invested in a short-term investment pool, which had an interest sensitivity of 3 and 1 days as of June 30, 2023 and

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2022, respectively. This pool is valued based on amortized cost. There were no violations of legal or contractual provisions, no borrower or lending agent default losses known to the securities lending agent. There are no dividends or coupon payments owing on the securities lent. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month.

Indemnification deals with the situation in which a client's securities are not returned due to the insolvency of a borrower and Northern Trust has failed to live up to its contractual responsibilities relating to the lending of those securities. Northern Trust's responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending.

For securities loaned at fiscal year end, the SIB has no credit risk exposure to borrowers because the amounts the SIB owes the borrowers exceeds the amounts the borrowers owe the SIB.

The following represents the balances relating to the securities lending transactions at June 30, 2023 and 2022 (expressed in thousands).

2023	Securities Lent	Non-Cash Collateral Value	Cash Collateral Investment Value
Lent for cash collateral:			
US agency securities	\$ 636	\$ -	\$ 651
US government securities	327	-	336
US corporate fixed income securities	55,426	-	56,543
Global agency securities	210	-	223
Global government securities	555	-	579
Global corporate fixed income securities	1,997	-	2,152
US equities	55,709	-	56,892
Global equities	1,557	-	1,627
Lent for non-cash collateral:			
US agency securities	1,541	1,577	-
US government securities	7,671	7,850	-
US corporate fixed income securities	98,961	101,098	-
US equities	338,691	344,275	-
Global equities	1,414	1,499	-
Global corporate fixed	8,396	9,061	-
Total	\$ 573,091	\$ 465,360	\$ 119,003

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2022	Securities Lent	Non-Cash Collateral Value	Cash Collateral Investment Value
Lent for cash collateral:			
US agency securities	\$ 996	\$ -	\$ 1,037
US government securities	3,867	-	3,977
US corporate fixed income securities	82,501	-	85,182
Global government securities	2,214	-	2,346
Global corporate fixed income securities	8,052	-	8,554
US equities	39,907	-	41,241
Global equities	4,547	-	5,171
Lent for non-cash collateral:			
US agency securities	777	804	-
US government securities	3,751	3,881	-
US corporate fixed income securities	85,783	88,643	-
US equities	53,980	55,731	-
Global equities	7,679	8,310	-
Total	<u>\$ 294,241</u>	<u>\$ 157,369</u>	<u>\$ 147,705</u>

Note 4 - Capital Assets

	June 30, 2021	Additions	Retirements	June 30, 2022	Additions	Retirements	June 30, 2023
Office equipment	\$16,879	\$ -	\$ -	\$16,879	\$ -	\$ -	\$16,879
Less accumulated depreciation on office equipment	(15,530)	(1,349)	-	(16,879)	-	-	(16,879)
Software	1,213,500	680,999	-	1,894,499	1,899,328	-	3,793,827
Less accumulated depreciation on software	(1,213,500)	-	-	(1,213,500)	-	-	(1,213,500)
	<u>\$ 1,349</u>	<u>\$ (1,800)</u>	<u>\$ -</u>	<u>\$ 680,999</u>	<u>\$ 1,899,328</u>	<u>\$ -</u>	<u>\$ 2,580,327</u>

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Note 5 - State Agency Transactions

Due To/From Other State Agencies and Other State Funds

Amounts due from/to other state agencies and other state funds are as follows as of June 30, 2023 and 2022:

	2023	2022
Due To Other State Agencies		
Information Technology Department	\$ 39,202	\$ 33,736
Health Department	30	225.00
Department of Transportation	-	77.76
Office of Attorney General	2,875	505
Office of Management and Budget	3,717	338
Total due to other state agencies	<u>\$ 45,824</u>	<u>\$ 34,882</u>
Due From Other State Agencies		
Public Employees Retirement System	<u>\$ 1,531</u>	<u>\$ 1,281</u>
Total due from other state agencies	<u>\$ 1,531</u>	<u>\$ 1,281</u>

Due to other state agencies balances are a result of a time lag between the dates that services are provided, the payments are made, and the transactions are entered into the accounting system.

Note 6 - Changes in Noncurrent Liabilities

Changes in noncurrent liabilities are included in accrued expenses in the statements of changes in net position. The changes for the years ended June 30, 2023 and 2022 are summarized as follows:

	Beginning Balance 7/1/2022	Additions	Reductions	Ending Balance 6/30/2023	Amounts Due Within One Year
Accrued Leave	<u>\$158,988</u>	<u>\$194,600</u>	<u>(\$95,458)</u>	<u>\$258,130</u>	<u>\$143,772</u>
	Beginning Balance 7/1/2021	Additions	Reductions	Ending Balance 6/30/2022	Amounts Due Within One Year
Accrued Leave	<u>\$211,403</u>	<u>\$126,018</u>	<u>(\$178,433)</u>	<u>\$158,988</u>	<u>\$149,765</u>

Pension and Investment Trust Funds liquidate the accrued annual leave.

Note 7 - North Dakota Teachers' Fund for Retirement

Administration

The following brief description of TFFR is provided for general information purposes only. Participants should refer to NDCC Chapter 15-39.1 for more complete information.

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TFFR is a cost-sharing multiple-employer defined benefit pension plan covering all North Dakota public teachers and certain other teachers who meet various membership requirements. TFFR provides for pension, death and disability benefits. The cost to administer the TFFR plan is financed by investment income and contributions.

Responsibility for administration of the TFFR benefits program is assigned to a seven-member Board of Trustees (Board). The Board consists of the State Treasurer, the Superintendent of Public Instruction, and five members appointed by the Governor. The appointed members serve five-year terms which end on June 30 of alternate years. The appointed Board members must include two active teachers, one active school administrator, and two retired members. The TFFR Board submits any necessary or desirable changes in statutes relating to the administration of the fund, including benefit terms, to the Legislative Assembly for consideration. The Legislative Assembly has final authority for changes to benefit terms and contribution rates.

Membership

As of June 30, 2023 and 2022, the number of participating employer units was 206 and 207, respectively, consisting of the following:

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Public School Districts	171	171
County Superintendents	4	4
Special Education Units	19	19
Vocational Education Units	4	4
Other	8	9
Total	<u>206</u>	<u>207</u>

TFFR's membership consisted of the following:

TFFR Membership

	<u>2023</u>	<u>2022</u>
Retirees and beneficiaries currently receiving benefits	9,615	9,438
Terminated employees - vested	2,010	1,827
Terminated employees - nonvested	1,711	1,423
Total	<u>13,336</u>	<u>12,688</u>
Current employees		
Vested	8,336	8,326
Nonvested	3,430	3,476
Total	<u>11,766</u>	<u>11,802</u>

Member and Employer Contributions

Member and employer contributions paid to TFFR are set by NDCC Section 15-39.1-09. Every eligible teacher in the State of North Dakota is required to be a member of TFFR and is assessed at a rate of 11.75% of salary as defined by NDCC Section 15-39.1-04. Every governmental body employing a teacher must also pay into TFFR a sum equal to 12.75% of the teacher's salary. Member and employer contributions will be reduced to 7.75% each when the fund reaches 100% funded ratio on an actuarial basis.

A vested member who terminates covered employment may elect a refund of contributions paid plus 6% interest or defer payment until eligible for pension benefits. A non-vested member who terminates covered employment must claim a refund of contributions paid before age 70½. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

Pension Benefits

For purposes of determining pension benefits, members are classified within one of three categories. Tier 1 grandfathered and Tier 1 non-grandfathered members are those with service credit on file as of July 1, 2008. Tier 2 members are those newly employed and returning refunded members on or after July 1, 2008.

Tier 1 Grandfathered

A Tier 1 grandfathered member is entitled to receive unreduced benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or the sum of age and years of service credit equals or exceeds 85. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 6% per year for every year the member's retirement age is less than 65 years or the date as of which age plus service equal 85. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

Tier 1 Non-grandfathered

A Tier 1 non-grandfathered member is entitled to receive unreduced benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or has reached age 60 and the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 8% per year from the earlier of age 60/Rule of 90 or age 65. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

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Notes to the Financial Statements

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Tier 2

A Tier 2 member is entitled to receive unreduced benefits when five or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or has reached age 60 and the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 8% per year from the earlier of age 60/Rule of 90 or age 65. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the five highest annual salaries earned divided by 60 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

Death and Disability Benefits

Death benefits may be paid to a member's designated beneficiary. If a member's death occurs before retirement, the benefit options available are determined by the member's vesting status prior to death. If a member's death occurs after retirement, the death benefit received by the beneficiary (if any) is based on the retirement plan the member selected at retirement.

An active member is eligible to receive disability benefits when: (a) a total disability lasting 12 months or more does not allow the continuation of teaching, (b) the member has accumulated five years of credited service in North Dakota, and (c) the Board of Trustees of TFFR has determined eligibility based upon medical evidence. The amount of the disability benefit is computed by the retirement formula in NDCC Section 15-39.1-10 without consideration of age and uses the member's actual years of credited service. There is no actuarial reduction for reason of disability retirement.

Investment Rate of Return

The annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.35% and -6.17% for the years ended June 30, 2023 and 2022, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Realized Gains and Losses

Realized gains and losses on sales of investments are components of net change in fair value of investments and are computed as described in Note 1. For the years ended June 30, 2023 and 2022, TFFR had net realized gains of \$37,160,466 and \$127,985,911, respectively.

Net Pension Liability

The components of the net pension liability of TFFR at June 30, 2023 and 2022 (expressed in thousands), were as follows:

North Dakota Retirement and Investment Office

Notes to the Financial Statements

June 30, 2023 and 2022

	June 30, 2023	June 30, 2022
Total pension liability	\$ 4,577,220	\$ 4,479,973
Plan fiduciary net position	<u>(3,173,908)</u>	<u>(3,023,920)</u>
Net pension liability (NPL)	<u>\$ 1,403,312</u>	<u>\$ 1,456,053</u>
Plan fiduciary net position as a percentage of the total pension liability	69.3%	67.5%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2023 and 2022, using the following actuarial assumptions:

Valuation date	July 1, 2023	July 1, 2022
Inflation	2.30%	2.30%
Salary increases	Composed of 3.80% wage inflation, plus step-rate promotional increases for members with less than 30 years of service	3.80% to 14.80%; varying by service, including inflation and productivity
Cost of living adjustments	None	None
Investment rate of return	7.25% net of investment expenses, including inflation	7.25% net of investment expenses, including inflation

For the July 1, 2023 and 2022, valuations, the post-retirement healthy mortality table was 104% of the PubT-2010 Retiree table for retirees and to 95% of the PubT-2010 Contingent Survivor table for beneficiaries, both projected with generational improvement using Scale MP-2019. The disabled mortality table was the PubNS-2010 Non-Safety Disabled Mortality table projected with generational improvement using Scale MP-2019.

The TFFR Board is responsible for establishing investment policy for the fund assets under NDCC 15-39.1-05.2. Benefit payments are projected to occur over a long period of time. This allows TFFR to adopt a long-term investment horizon and asset allocation policy for the management of fund assets. Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset-liability analysis designed to assist the Board in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. This asset-liability analysis considers both sides of the plan balance sheet, utilizing both quantitative and qualitative inputs, in order to estimate the potential impact of various asset class mixes on key measures of total plan risk, including the resulting estimated impact of funded status and contribution rates.

The long-term expected rate of return on TFFR investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the TFFR target asset allocation as of July 1, 2023 and 2022 are summarized in the following tables:

North Dakota Retirement and Investment Office

Notes to the Financial Statements

June 30, 2023 and 2022

2023	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	55.0%	6.2%
Global Fixed Income	26.0%	3.0%
Global Real Assets	18.0%	4.4%
Cash Equivalents	1.0%	0.9%

2022	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	55.0%	6.6%
Global Fixed Income	26.0%	0.4%
Global Real Assets	18.0%	4.6%
Cash Equivalents	1.0%	-1.1%

As part of the most recent asset/liability study, the total fund real rate of return was upwardly adjusted by 0.50% to reflect a longer investment time horizon than is assumed in the investment consultant's expected returns and to account for above benchmark returns achieved through active management. In order to estimate the nominal rate of return, the real rate of return was adjusted upward by 2.30% for expected inflation.

Discount Rate

The discount rate used to measure the total pension liability was 7.25% as of June 30, 2023 and 2022. The projection of cash flows used to determine the discount rate assumed that member and employer contributions will be made at rates equal to those based on the July 1, 2023 and 2022 Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, TFFR's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members as of July 1, 2023 and 2022. Therefore, the long-term expected rate of return on TFFR investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2023 and 2022.

Sensitivity of Net Pension Liability

The following presents the net pension liability of the TFFR employers calculated using the discount rate of 7.25% as of June 30, 2023 and 2022, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate (expressed in thousands):

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Notes to the Financial Statements

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2023

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Employers' net pension liability	\$ 1,953,806	\$ 1,403,312	\$ 946,493

2022

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Employers' net pension liability	\$ 2,000,483	\$ 1,456,053	\$ 1,004,517

Note 8 - ND Public Employees Retirement System (NDPERS)

Permanent employees of RIO participate in the pension and other post-employment benefit (OPEB) plans of NDPERS, which is also an agency of the State of North Dakota financial reporting entity and is included in the State of North Dakota's Annual Comprehensive Financial Report. The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

NDPERS pension (Main System) and OPEB plans are cost-sharing multiple-employer defined benefit plans that cover employees/retirees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS pension plan provides for pension, death and disability benefits. NDPERS OPEB plan provides a credit toward the monthly health insurance premium of members receiving retirement benefits from the PERS, HPRS and Judges retirement under Chapter 27-17 of the North Dakota Century Code. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019, the credit is expanded to also include any eligible health, prescription drug plan, dental, vision, and long-term care plan premium expense. The cost to administer the pension plan is financed through the contributions and investment earnings of the plan. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 is replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. For members hired on or after January 1, 2020 the 2.00% multiplier was replaced with a 1.75% multiplier. The plan permits early retirement at ages 55-64 with three or more years of service.

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Notes to the Financial Statements

June 30, 2023 and 2022

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, life-time monthly payment in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's beneficiary.

Eligible members, who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Contributions

Upon termination, if a member is not vested (is not 65 or does not have three years of service credited for the NDPERS) they will receive the accumulated member contributions plus interest, or may elect to receive this amount at a later date. If a member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contributions and is subsequently reemployed, they have the option of repurchasing their previous service.

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. During the 1983-1985 biennium the State of North Dakota implemented the employer pickup provision of the IRS code whereby a portion or all of the required member contributions are made by the employer. RIO, as the employer, is paying 4% of the member contribution. Employer contributions are set by statute.

Contribution rates are established as a percent of covered compensation as follows:

	Member	Employer
Members first enrolled prior to January 1, 2020	7.00%	7.12%
Members first enrolled after January 1, 2020	7.00%	8.26%
Members returning to the DB Plan as a result of Senate Bill 2015	9.00%	7.12%

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Notes to the Financial Statements

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The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 24 months of service – Greater of two percent of monthly salary or \$25
- 25 to 36 months of service – Greater of three percent of monthly salary or \$25
- Longer than 36 months of service – Greater of four percent of monthly salary or \$25

OPEB Benefits

The employer contribution is set by statute at 1.14% of covered compensation. Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "prefunded credit applied" on the Statement of Changes in Plan Net Position for the OPEB trust funds. Beginning January 1, 2020 members first enrolled in the NDPERS main system and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the part a closed plan.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

Pension & OPEB Liabilities, Pension & OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions & OPEB

At June 30, 2023 and 2022, RIO reported a liability of \$4,453,741 and \$1,549,271, respectively, for its proportionate share of the net pension and OPEB liability. These amounts are included in the accrued liabilities in the statements of net position. The net pension and OPEB liability were measured as of June 30, 2022 and 2021, and the total pension and OPEB liability used to calculate the net pension and OPEB liability was determined by an actuarial valuation as of that date. RIO's proportion of the net pension liability was based on RIO's share of covered payroll in the pension and OPEB plans relative to the covered payroll of all participating NDPERS Main System and OPEB employers. At June 30, 2022, RIO's pension plan proportion was 0.150263 percent and as of June 30, 2021, was 0.141582 percent. RIO's OPEB plan proportion was 0.105029 percent as of June 30, 2022 and was 0.132262 percent as of June 30, 2021.

RIO recognized pension and OPEB expense of \$401,259 and \$92,941 for the years ended June 30, 2023 and 2022, respectively. At June 30, 2023 and 2022, RIO reported deferred outflows of resources and deferred inflows of resources related to pensions and OPEB from the following sources:

North Dakota Retirement and Investment Office

Notes to the Financial Statements

June 30, 2023 and 2022

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2023	2022	2023	2022
Differences between expected and actual experience	\$ 25,563	\$ 29,704	\$ 83,750	\$ 152,633
Changes in assumptions	2,619,766	1,644,715	1,604,425	2,129,514
Net differences between projected and actual earnings on plan investments	175,369	-	-	572,522
Changes in proportion and differences between employer contributions and proportionate share of contributions	139,323	32,684	81,577	108,916
Employer contributions subsequent to the measurement date	189,018	132,556	-	-
Total	\$ 3,149,039	\$ 1,839,659	\$ 1,769,752	\$ 2,963,585

Deferred outflows of resources related to pensions and OPEB resulting from employer contributions subsequent to the measurement date in the amount of \$189,018 will be recognized as a reduction of the net pension liability in the year ended June 30, 2024.

Other amounts reported as deferred outflows of resources and (deferred inflows of resources) related to pensions and OPEB will be recognized in pension expense as follows:

Year Ended June 30	
2024	\$ 318,283
2025	380,201
2026	61,259
2027	430,526
2028	-
2029	-
	<u>\$ 1,190,269</u>

Actuarial assumptions

The total pension and OPEB liabilities in the July 1, 2022 and 2021 actuarial valuation were determined using the following actuarial assumptions, applied to all periods included in the measurement:

2022 – Pension Plan

Inflation	2.25%
Salary Increase (Payroll Growth)	3.5% to 17.75%, including inflation
Investment Rate of Return	5.10%, net of investment expense
Cost-of-living Adjustments	None

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Notes to the Financial Statements

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2021 – Pension Plan

Inflation	2.25%
Salary Increase (Payroll Growth)	3.5% to 17.75%, including inflation
Investment Rate of Return	7.00%, net of investment expense
Cost-of-living Adjustments	None

For active members, inactive members and healthy retirees in both 2022 and 2021, mortality rates were based on the Sex-distinct Pub-2010 table for General Employees, with scaling based on actual experience. Respective corresponding tables were used for healthy retirees, disabled retirees, and active members. Mortality rates are projected from 2010 using the MP-2019 scale.

The investment return assumption was updated from 7.00% to 6.50% beginning with the actuarial valuation as of July 1, 2022. All other actuarial assumptions used in the actuarial valuation as of July 1, 2022 were based on an experience review for the period from July 1, 2014 to July 1, 2019, and were adopted for first use commencing with the actuarial valuation as of July 1, 2020.

2022 – OPEB Plan

Inflation	2.25%
Salary Increase (Payroll Growth)	Not applicable.
Investment Rate of Return	5.75%, net of investment expense
Cost of Living Adjustments	None

2021 – OPEB Plan

Inflation	2.25%
Salary Increase (Payroll Growth)	Not applicable.
Investment Rate of Return	6.50%, net of investment expense
Cost of Living Adjustments	None

For active members, inactive members and healthy retirees in both 2022 and 2021, mortality rates were based on the MortalityPub-2010 Healthy Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 103% for males and 101% for females. Pub-2010 Disabled Retiree Mortality table (for General Employees), sex-distinct, with rates multiplied by 117% for males and 112% for females. Pub-2010 Employee Mortality table (for General Employees), sex-distinct, with rates multiplied by 92% for both males and females. Mortality rates are projected from 2010 using the MP-2019 scale. The investment return assumption was updated from 6.50% to 5.75% beginning with the actuarial valuation as of July 1, 2022. All actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2021.

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Notes to the Financial Statements

June 30, 2023 and 2022

Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2020.

The long-term expected rate of return on pension and OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the plans' target asset allocations are summarized in the following table:

2022 - Pension Plan

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58%	6.4%
Global Fixed Income	23%	0.3%
Global Real Assets	19%	4.6%

2021 - Pension Plan

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58%	6.7%
Global Fixed Income	23%	0.7%
Global Real Assets	19%	4.8%

2022 - OPEB Plan

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap Domestic Equity	33%	5.6%
Small Cap Domestic Equity	6%	6.5%
International Equity	26%	6.0%
Core-Plus Fixed Income	35%	0.2%

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Notes to the Financial Statements

June 30, 2023 and 2022

2021 - OPEB Plan

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap Domestic Equity	33%	5.9%
Small Cap Domestic Equity	6%	6.8%
International Equity	26%	6.3%
Core-Plus Fixed Income	35%	0.5%

Discount rate

For pension plans, GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the Total Pension Liability. This rate considers the ability of the System to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. The current employer and employee fixed rate contributions are assumed to be made in each future year. The Plan Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. In years where assets are not projected to be sufficient to meet benefit payments, which is the case for the PERS plan, the use of a municipal bond rate is required.

Projected benefit payments are required to be discounted to their actuarial present values using a Single Discount Rate (SDR) that reflects (1) the long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits) and (2) a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For 2022, the expected rate of return on pension plan investments is 6.50%; the municipal bond rate is 3.69% (based on the most recent date available on or before the measurement date of the "20-year Municipal GO Index" from Fidelity); and the resulting Single Discount Rate is 5.10%.

For 2021, the expected rate of return on pension plan investments is 7.00%; the municipal bond rate is 1.92% (based on the most recent date available on or before the measurement date of the "20-year Municipal GO Index" from Fidelity); and the resulting Single Discount Rate is 7.00%.

The discount rate used to measure the total OPEB liability for 2022 was 5.39% and for 2021 was 6.50%. The projection of cash flows used to determine the discount rate assumed plan member and statutory/Board approved employer contributions will be made at rates equal to those based on the July 1, 2022 and 2020 OPEB actuarial valuation reports. For this purpose, only employer contributions that are intended to fund benefits of current OPEB members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the OPEB fiduciary net position was projected to be sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB investments was applied to all periods of projected benefit payments to determine the total OPEB liability for both years.

North Dakota Retirement and Investment Office

Notes to the Financial Statements

June 30, 2023 and 2022

Sensitivity of the Employer's proportionate share of the net pension and OPEB liability to changes in the discount rate

The following presents RIO's proportionate share of the net pension and OPEB liability calculated using the current discount rate, as well as what the RIO's proportionate share of the net pension and OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

2023

	1% Decrease (4.10%)	Current Discount Rate (5.10%)	1% Increase (6.10%)
RIO's net pension liability	\$5,712,233	\$ 4,327,674	\$3,191,000

	1% Decrease (4.39%)	Current Discount Rate (5.39%)	1% Increase (6.39%)
RIO's net OPEB liability	160,917	126,067	96,812

2022

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
RIO's net pension liability	\$2,346,875	\$ 1,475,710	\$ 750,328

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
RIO's net OPEB liability	109,100	73,561	43,489

Sensitivity for Healthcare Cost Trend Rates

The benefit provided by the North Dakota retiree health insurance credit fund is a fixed dollar subsidy and is not affected by the healthcare cost trend. Therefore, a sensitivity analysis was not performed.

Pension and OPEB plan fiduciary net position

Detailed information about the pension and OPEB plans' fiduciary net position is available in the separately issued NDPERS Annual Comprehensive Financial Report. This report can be accessed on the NDPERS website at <https://www.ndpers.nd.gov/about/financial-actuarial-reports/annual-report-archive>

Note 9 - Related Parties

As stated in Note 1, RIO is an agency of the State of North Dakota; as such, other agencies of the state are related parties.

REQUIRED SUPPLEMENTARY INFORMATION

North Dakota Retirement and Investment Office

Required Supplementary Information

For Fiscal Year Ended June 30, 2023

Schedule of Changes in Net Pension Liability and Related Ratios North Dakota Teachers' Fund for Retirement Last 10 Fiscal Years (Dollars in thousands)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability										
Service cost	\$ 96,101	92,336	\$ 87,088	\$ 80,591	\$ 77,756	\$ 78,041	\$ 75,476	\$ 68,239	\$ 60,618	\$ 56,752
Interest	318,879	311,929	300,698	306,791	296,876	287,375	276,412	265,440	249,064	237,821
Changes of benefit terms	-	-	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(55,451)	(8,505)	8,366	(20,732)	(23,495)	(27,939)	(10,749)	(8,093)	2,209	9,347
Changes of assumptions	-	-	-	51,813	-	-	-	-	171,325	-
Benefit payments, including refunds of member contributions	(262,282)	(251,847)	(241,128)	(230,851)	(221,228)	(207,979)	(196,516)	(185,969)	(172,239)	(162,259)
Net change in total pension liability	97,247	143,913	155,024	187,612	129,909	129,498	144,623	139,617	310,977	141,661
Total pension liability - beginning	4,479,973	4,336,060	4,181,036	3,993,424	3,863,515	3,734,017	3,589,394	3,449,777	3,138,800	2,997,139
Total pension liability - ending (a)	\$4,577,220	4,479,973	\$4,336,060	\$4,181,036	\$3,993,424	\$3,863,515	\$3,734,017	\$3,589,394	\$3,449,777	\$3,138,800
Plan fiduciary net position										
Contributions - employer	\$ 102,308	100,331	\$ 98,264	\$ 93,032	\$ 89,445	\$ 86,676	\$ 86,059	\$ 82,840	\$ 78,422	\$ 62,355
Contributions - member	94,284	92,462	90,557	85,735	82,429	79,878	79,309	76,343	72,268	56,555
Contributions - purchased service credit	1,109	2,017	2,559	2,175	1,917	2,181	2,553	2,768	1,601	2,034
Contributions - other	(10)	25	126	159	159	194	236	45	172	48
Net investment income	217,471	(198,881)	684,173	86,206	135,043	211,345	266,688	8,239	73,205	294,246
Benefit payments, including refunds of member contributions	(262,282)	(251,847)	(241,128)	(230,851)	(221,228)	(207,979)	(196,516)	(185,969)	(172,239)	(162,259)
Administrative expenses	(2,891)	(2,592)	(2,678)	(2,095)	(2,251)	(2,129)	(2,173)	(1,852)	(1,923)	(1,586)
Net change in plan fiduciary net position	149,989	(258,485)	631,873	34,361	85,514	170,166	236,156	(17,586)	51,506	251,393
Plan fiduciary net position - beginning *	3,023,920	3,282,405	2,650,532	2,616,171	2,530,657	2,360,491	2,124,335	2,141,921	2,090,415	1,839,584
Plan fiduciary net position - ending (b)	\$3,173,909	3,023,920	\$3,282,405	\$2,650,532	\$2,616,171	\$2,530,657	\$2,360,491	\$2,124,335	\$2,141,921	\$2,090,977
Plan's net pension liability - ending (a) - (b)	\$1,403,311	1,456,053	\$1,053,655	\$1,530,504	\$1,377,253	\$1,332,858	\$1,373,526	\$1,465,059	\$1,307,856	\$1,047,823
Plan fiduciary net position as a percentage of the total pension liability	69.3%	67.5%	75.7%	63.4%	65.5%	65.5%	63.2%	59.2%	62.1%	66.6%
Covered payroll	802,413	786,912	770,700	729,661	701,528	679,809	674,971	649,725	615,105	580,053
Plan's net pension liability as a percentage of covered payroll	174.9%	185.0%	136.7%	209.8%	196.3%	196.1%	203.5%	225.5%	212.6%	180.6%

Notes to Schedule:

* Restated in 2015 due to GASB 68 implementation.

Changes of assumptions:

Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2020.

North Dakota Retirement and Investment Office

Required Supplementary Information

For Fiscal Year Ended June 30, 2023

Schedule of Employer Contributions North Dakota Teachers' Fund for Retirement Last 10 Fiscal Years (Dollars in thousands)

Fiscal Year	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2014	\$ 59,513	\$ 62,355	\$ (2,842)	\$ 580,053	10.75%
2015	71,168	78,422	(7,254)	615,105	12.75%
2016	84,724	82,840	1,884	649,725	12.75%
2017	89,231	86,059	3,172	674,971	12.75%
2018	88,307	86,676	1,631	679,809	12.75%
2019	90,778	89,445	1,333	701,528	12.75%
2020	93,688	93,032	656	729,661	12.75%
2021	101,655	98,264	3,391	770,700	12.75%
2022	97,341	100,331	(2,990)	786,912	12.75%
2023	97,252	102,308	(5,056)	802,413	12.75%

Notes to Schedule

Valuation Date: Actuarially determined contributions for each fiscal year are based on the actuarial valuation as of the beginning of the year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	20 years
Asset valuation method	5-year smoothed market
Inflation	2.30%; decreased from 2.75% prior to 7/1/2020 and from 3% prior to 7/1/2015.
Salary increases	3.80% - 14.80% including inflation and productivity; 4.25% - 14.5% prior to 7/1/2020; 4.5% - 14.75% prior to 7/1/2015.
Investment rate of return	7.25%, net of investment expenses, including inflation; rate was decreased from 7.75% beginning 7/1/2020 and decreased from 8% beginning 7/1/2015.
Retirement age	In the 2020 and 2015 valuations, rates of retirement were changed to better reflect anticipated future experience.
Mortality	In the 2020 valuation, the PubT-2010 pre-retirement, retiree and contingent survivor tables were adopted and for disabled members, PubNS-2010 tables were adopted; all with generational improvement. In the 2015 valuation, assumed life expectancies were adjusted as a result of adopting the RP-2014 mortality tables with generational improvement. In prior years, those assumptions were based on percentages of GRS post termination non-disabled tables and RP-2000 disabled-life tables.

Schedule of Investment Returns
North Dakota Teachers' Fund for Retirement
Last 10 Fiscal Years

ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSES

<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
7.35%	-6.17%	26.36%	3.37%	5.46%	9.15%	12.81%	0.39%	3.56%	16.35%

North Dakota Retirement and Investment Office
 Required Supplementary Information
 For Fiscal Year Ended June 30, 2023

**Schedule of Employer's Share of Net Pension and OPEB Liability
 ND Public Employees Retirement System
 Last 10 Fiscal Years*
 (Dollars in thousands)**

	2023	2022	2021	2020	2019	2018	2017	2016	2015
RIO's proportion of NDPERS net pension liability (asset)	0.150263%	0.141582%	0.140747%	0.151523%	0.153507%	0.156317%	0.152969%	0.145546%	0.121849%
RIO's proportion of NDPERS net OPEB liability (asset)	0.105029%	0.132262%	0.122537%	0.141245%	0.144121%	0.147503%			
RIO's proportionate share of NDPERS net pension liability (asset)	\$ 4,328	\$1,475.71	\$ 4,428	\$ 1,776	\$ 2,591	\$ 2,513	\$ 1,491	\$ 990	\$ 773
RIO's proportionate share of NDPERS net OPEB liability (asset)	126	74	103	113	114	117			
RIO's covered payroll	\$ 1,605	\$ 1,843	\$ 1,631	\$ 1,584	\$ 1,567	\$ 1,596	\$ 1,507	\$ 1,377	\$ 1,026
RIO's proportionate share of NDPERS net pension liability (asset) as a percentage of its covered payroll	269.64%	80.071%	271.49%	112.12%	165.35%	157.46%	98.94%	71.90%	75.34%
RIO's proportionate share of NDPERS net OPEB liability (asset) as a percentage of its covered payroll	7.85%	3.99%	6.32%	7.16%	7.28%	7.31%			
NDPERS Plan fiduciary net position as a percentage of the total pension liability	54.47%	78.26%	48.91%	71.66%	62.80%	61.98%	70.46%	77.15%	77.70%
NDPERS Plan fiduciary net position as a percentage of the total OPEB liability	56.28%	76.63%	63.38%	63.13%	61.89%	59.78%			

*Complete data for this schedule is not available prior to 2015 for pension liability and prior to 2018 for OPEB liability.
 Amounts presented for each fiscal year have a measurement date of the previous fiscal year end.

**Schedule of Employer Pension and OPEB Contributions
 ND Public Employees Retirement System
 Last 10 Years*
 (Dollars in thousands)**

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
RIO's Statutorily required pension contribution	\$ 174	\$ 119	\$ 131	\$ 116	\$ 113	\$ 112	\$ 114	\$ 107	\$ 98	\$ 73
RIO's Statutorily required OPEB contributions	15	14	21	19	18	18	18			
RIO's pension contributions in relation to the statutory required contribution	174	119	131	116	113	112	114	107	98	73
RIO's OPEB contributions in relation to the statutory required contribution	15	14	21	19	18	18	18			
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
RIO's Covered payroll	\$ 2,286	\$ 1,605	\$ 1,843	\$ 1,631	\$ 1,584	\$ 1,567	\$ 1,596	\$ 1,507	\$ 1,377	\$ 1,026
RIO's pension contributions as a percentage of covered payroll	7.62%	7.40%	7.12%	7.12%	7.12%	7.12%	7.12%	7.12%	7.12%	7.12%
RIO's OPEB contributions as a percentage of covered payroll	0.65%	0.86%	1.14%	1.14%	1.14%	1.14%	1.14%			

*Complete data for this schedule is not available prior to 2017 for OPEB contributions.

North Dakota Retirement and Investment Office
Combining State of Net Position – Investment Trust Funds – Fiduciary Funds
June 30, 2023 (with Summarized Comparative Totals for 2022)

	Pension Pool Participants					Insurance Pool Participants							
	Public Employees Retirement System	Bismarck City Employee Pension Plan	Bismarck City Police Pension Plan	City of Grand Forks Employee Pension Plan	City of Grand Forks Park District	Workforce Safety & Insurance	State Fire & Tornado	State Bonding	Petroleum Tank Release Comp. Fund	Insurance Regulatory Trust Fund	Cultural Endowment Fund	Risk Mgmt	Risk Workers' Comp
Assets:													
Investments													
Global equities	\$2,309,920,873	\$56,694,946	\$25,974,153	\$44,892,460	\$4,754,913	\$427,18,480	\$6,392,061	\$ -	\$ -	\$2,178,234	\$305,143	\$1,134,484	\$987,592
Global fixed income	843,518,099	4,145,764	14,591,063	17,954,865	2,198,559	1246,237,468	9,958,754	2,024,473	2,932,084	2,525,462	205,470	2,412,420	1600,677
Global real assets	746,170,848	24,555,852	10,155,312	11,183,611	1,738,188	362,515,676	-	-	-	-	27,678	-	-
Cash equivalents	4,752,310	387,960	154,680	794,932	26,054	20,443,936	1,795,189	1,625,354	2,897,618	2,447,214	16,166	684,257	830,234
Total investments	3,904,362,130	123,096,403	50,875,208	74,825,868	8,717,714	2,056,315,560	18,146,004	3,649,827	5,829,702	7,150,910	554,457	4,231,161	3,418,503
Invested sec lending collateral	27,467,155	739,665	313,063	564,627	94,155	10,889,438	93,534	16,407	23,528	25,891	2,479	22,465	15,121
Investment income receivable	8,178,945	247,758	96,895	98,181	13,626	10,393,886	142,649	26,664	57,380	10,016	308	49,650	4,850
Operating Cash	219,547	-	-	-	-	148,840	2,040	1238	115	962	295	1,260	1,247
Miscellaneous receivable	8,983	-	-	-	-	4,869	45	9	14	6	1	9	6
Due from other state agencies	156	-	-	-	-	84	1	-	-	-	-	-	-
Total assets	3,940,236,916	124,083,826	51,285,166	75,488,676	8,825,495	2,077,752,677	18,384,273	3,694,145	5,911,739	7,187,785	557,540	4,304,545	3,439,727
Deferred outflows of resources													
Related to pensions	365,147	-	-	-	-	219,627	2,344	385	685	220	55	495	448
Liabilities:													
Investment expenses payable	2,278,387	68,907	28,791	39,519	5,090	1,075,535	11,053	1,341	1,959	3,127	366	2,467	1,803
Securities lending collateral	27,467,155	739,665	313,063	564,627	94,155	10,889,438	93,534	16,407	23,528	25,891	2,479	22,465	15,121
Accounts payable	43,883	-	-	-	-	21,787	208	36	59	29	6	36	25
Accrued expenses	582,684	-	-	-	-	364,888	4,398	663	1,261	305	89	931	811
Miscellaneous payable	-	8,382	3,464	4,988	603	-	-	-	-	-	-	-	-
Due to other state funds	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to other state agencies	1,500	-	-	-	-	813	8	1	2	1	-	1	1
Total liabilities	30,373,609	816,954	345,318	609,134	99,848	12,352,461	109,201	18,448	26,809	29,353	2,940	25,900	17,761
Deferred inflows of resources													
Related to pensions	224,825	-	-	-	-	136,438	1,454	235	393	186	33	310	310
Fiduciary net position held in trust for external investment pool participants	\$ 3,910,003,629	\$ 123,266,872	\$ 50,939,848	\$ 74,879,542	\$ 8,725,647	\$ 2,065,483,405	\$ 18,275,962	\$ 3,675,847	\$ 5,885,222	\$ 7,158,466	\$ 554,622	\$ 4,278,830	\$ 3,422,104
Each participant unit is valued at \$ 100													
Participant units outstanding	3,910,003,629	123,266,872	50,939,848	74,879,542	8,725,647	2,065,483,405	18,275,962	3,675,847	5,885,222	7,158,466	554,622	4,278,830	3,422,104

North Dakota Retirement and Investment Office
 Combining Statement of Net Position – Investment Trust Funds – Fiduciary Funds
 June 30, 2023 (with Summarized Comparative Totals for 2022)

Insurance Pool Participants												Individual Investment Accounts				Totals	
ND Veterans' Cemetery Trust Fund	ND Ass'n. of Counties Fund	PERS Group Insurance	Budget Stabilization Fund	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	State Board of Medicine	Lewis & Clark Interpretive Center Endowment	Arts Across the Prairie Maintenance Endowment	Attorney General Settlement Fund	ND University System Capital Building Fund	Legacy Fund	Job Service of North Dakota	PERS Retiree Health Credit Fund	2023	2022		
\$227,110	\$2,530,071	\$ -	\$ -	\$235,195	\$213,992	\$875,104	\$295,493	\$748,300	\$ -	\$ -	\$4,600,838.59	\$16,756,911	\$109,976,710	\$7,634,566,673	\$6,377,122,880		
67,323	4,477,988	55,676,252	732,412,672	509,793	6,619,424	2,158,259	539,418	317,029	1,794,387	1,038,407	2,993,674,211	66,225,503	55,046,287	6,181,263,992	5,971,871,760		
67,863	-	-	-	-	4,241,311	193,171	-	-	-	-	1,332,051,598	-	-	2,492,901,108	2,524,055,925		
1,339	210,006	2,858,504	2,556,911	37,900	46,716	9,389	7,856	3,204	17,308	9,630	47,673,839	565,354	96,387	9,132,024	14,203,723		
453,635	7,218,065	58,534,756	734,969,583	782,888	42,597,372	3,235,923	842,767	1,068,533	181,1695	1,048,037	8,974,238,167	83,547,768	165,119,384	16,336,642,020	14,987,254,288		
1,743	42,409	523,807	6,906,319	4,555	183,941	19,552	5,069	4,058	16,876	9,760	46,918,698	-	-	94,904,315	127,624,822		
213	5,023	241,098	4,873,505	1,837	55,868	1,455	340	(7)	7,220	3,610	30,404,994	592	901	54,917,457	52,010,441		
-	-	-	53,848	-	-	-	-	4,553	-	-	432,035	-	-	866,980	426,172		
-	-	-	1,726	-	-	-	-	2	-	-	21,333	-	-	37,003	26,616		
-	-	-	30	-	-	-	-	-	-	-	370	-	-	641	457		
455,591	7,265,497	59,299,661	746,805,011	789,280	42,837,181	3,256,930	848,176	1,077,139	183,5791	1,061,407	9,052,015,597	83,548,360	165,120,285	16,487,368,416	15,167,342,796		
-	-	-	52,999	-	-	-	-	51	-	-	791,196	-	-	1,433,652	726,471		
254	4,549	25,513	334,488	486	30,679	1,827	518	641	831	498	4,450,231	12,284	234,613	8,735,757	4,862,595		
1,743	42,409	523,807	6,906,319	4,555	183,941	19,552	5,069	4,058	16,876	9,760	46,918,698	-	-	94,904,315	127,624,822		
-	-	-	7,124	-	-	-	-	13	-	-	99,804	-	-	173,010	245,515		
-	-	-	84,024	-	-	-	-	124	-	-	1,180,356	-	-	2,220,534	524,250		
166	491	3,997	-	250	2,959	250	250	-	250	250	-	5,739	10,882	42,921	32,737		
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
-	-	-	288	-	-	-	-	-	-	-	3,562	-	-	6,177	6,698		
2,163	47,449	553,317	7,332,243	5,291	217,579	21,629	5,837	4,836	17,957	10,508	52,652,651	138,023	245,495	106,082,714	133,296,617		
-	-	-	43,369	-	-	-	-	(42)	-	-	415,222	-	-	822,733	1,465,298		
\$ 453,428	\$ 7,218,048	\$ 58,746,344	\$ 739,482,398	\$ 783,989	\$ 42,619,602	\$ 3,235,301	\$ 842,339	\$ 1,072,396	\$ 181,7834	\$ 1,050,899	\$ 8,999,738,920	\$ 83,410,337	\$ 164,874,790	\$ 16,381,896,621	\$ 15,033,307,352		
453,428	7,218,048	58,746,344	739,482,398	783,989	42,619,602	3,235,301	842,339	1,072,396	181,7834	1,050,899	8,999,738,920	83,410,337	164,874,790	16,381,896,621	15,033,307,352		

North Dakota Retirement and Investment Office
Combining Statement of Changes in Net Position – Investment Trust Funds – Fiduciary Funds
Year Ended June 30, 2023 (with Summarized Comparative Totals for 2022)

	Pension Pool Participants					Insurance Pool Participants							
	Public Employees Retirement System	Bismarck City Employee Pension Plan	Bismarck City Police Pension Plan	City of Grand Forks Employee Pension Plan	City of Grand Forks Park District Pension Plan	Workforce Safety & Insurance	State Fire & Tornado	State Bonding	Petroleum Tank Release Comp. Fund	Insurance Regulatory Trust Fund	Cultural Endowment Fund	Risk Mgmt Workers' Comp	
Additions:													
Investment income:													
Net change in fair value of investments	\$ 241403,575	\$ 6,053,763	\$ 2,917,329	\$ 5,742,561	\$ 399,440	\$ 7,166,800	\$ 523,707	\$ (46,632)	\$ (68,245)	\$ (78,720)	\$ 36,774	\$ 161,677	\$ 96,622
Interest, dividends and other income	58,349,078	2,004,856	774,231	1,033,204	178,982	5,106,791	476,014	117,093	194,384	104,345	11,205	95,197	70,271
	299,752,653	8,058,619	3,691,560	6,845,765	578,422	58,227,591	999,721	70,461	126,139	25,625	47,979	256,874	166,893
Less investment expenses	10,041,324	318,932	134,217	198,133	26,024	3,911,819	35,305	2,866	4,246	6,394	1,379	6,875	5,677
Net investment income	289,711,329	7,739,687	3,557,343	6,647,632	552,098	54,315,772	964,416	67,595	121,893	19,231	46,600	249,999	161,216
Securities lending activity:													
Securities lending income	219,530	5,820	2,419	4,434	944	150,760	1,663	179	267	220	52	347	280
Less Securities lending expenses	(43,883)	(1,165)	(484)	(887)	(168)	(32,349)	(352)	(40)	(60)	(45)	(11)	(75)	(59)
Net securities lending income	175,647	4,655	1,935	3,547	756	118,411	1,311	139	207	175	41	272	221
Purchase of units (\$1 per unit)	-	-	-	3,320,839	290,583	4,000,000	7,149,357	-	-	5,995,594	-	500,000	750,000
Total Additions	289,886,976	7,744,342	3,559,278	9,972,018	843,437	58,434,183	8,115,084	67,734	122,100	6,015,000	46,641	750,271	911,437
Deductions:													
Administrative Expenses	761,904	-	-	-	-	413,267	3,853	1,069	1,302	985	773	1,072	983
Redemption of units (\$1 per unit)	76,910,000	3,000,000	750,000	7,939,727	729,691	47,000,000	8,860,604	-	150,000	5,476,441	12,000	450,000	750,000
Total Deductions	77,671,904	3,000,000	750,000	7,939,727	729,691	47,413,267	8,864,457	1,069	151,302	5,477,426	12,773	451,072	750,983
Change in fiduciary net position	212,215,072	4,744,342	2,809,278	2,032,291	113,746	11,020,916	(749,373)	66,665	(29,202)	537,574	33,868	299,199	160,454
Fiduciary net position:													
Beginning of year	3,697,788,557	18,522,530	48,130,570	72,847,251	8,611,901	2,054,462,489	19,025,335	3,609,182	5,914,424	6,620,892	520,754	3,979,631	3,261,650
End of year	\$ 3,910,003,629	\$ 123,266,872	\$ 50,939,848	\$ 74,879,542	\$ 8,725,647	\$ 2,065,483,405	\$ 18,275,962	\$ 3,675,847	\$ 5,885,222	\$ 7,158,466	\$ 554,622	\$ 4,278,830	\$ 3,422,104

North Dakota Retirement and Investment Office
 Combining Statement of Changes in Net Position – Investment Trust Funds – Fiduciary Funds
 Year Ended June 30, 2023 (with Summarized Comparative Totals for 2022)

Insurance Pool Participants													Individual Investment Accounts				Totals	
ND Veterans' Cemetery Trust Fund	ND Ass'n of Counties Fund	PERS Insurance Group	Budget Stabilization Fund	City of Bismarck Deferred Sick Leave	City of Fargo Fargo Dome Fund	State Board of Medicine	Lewis & Clark Interpretive Center Endowment	Arts Across the Prairie Maintenance Endowment	Attorney General Settlement Fund	ND University System Capital Building Fund	Job Service of North Dakota	PERS Retiree Health Credit Fund	2023	2022				
\$ 24,742	\$ 268,360	\$ 209,735	\$ (170,156)	\$ 22,743	\$ 2,637,840	\$ 52,879	\$ 29,312	\$ 63,852	\$ (5,943)	\$ (3,375)	\$ 539,977,359	\$ (556,475)	\$ 12,315,155	\$ 817,632,974	\$ (172,081,517)			
8,352	166,512	2,079,724	24,831,533	18,896	821,064	74,634	19,125	10,423	79,745	53,041	160,995,552	3,323,785	4,135,974	311,158,011	307,545,995			
33,094	434,872	2,289,459	23,129,972	41,639	3,458,904	27,513	48,437	74,275	63,802	49,666	700,972,911	2,767,310	16,451,229	1,128,790,985	(144,535,522)			
1,635	14,828	77,602	896,969	2,394	109,475	7,058	2,557	1,431	3,510	2,584	18,242,103	280,428	484,757	34,820,522	32,154,613			
31,459	420,044	2,211,857	22,233,003	39,245	3,349,429	120,455	45,880	72,844	60,292	47,082	682,730,808	2,486,882	15,966,372	1,093,970,463	(1,446,690,135)			
35	643	3,074	44,408	67	3,829	256	72	54	138	93	631,104	-	-	1,070,688	806,990			
(9)	(136)	(63)	(8,876)	(5)	(791)	(56)	(15)	(11)	(28)	(18)	(126,555)	-	-	(216,321)	(161,310)			
26	507	2,461	35,532	52	3,038	200	57	43	110	75	504,949	-	-	854,367	645,680			
-	-	190,611,521	-	-	-	365,625	-	1,000,000	-	7,580	858,723,028	-	4,693,500	1,077,407,627	918,708,674			
31,485	420,551	192,825,839	22,268,535	39,297	3,352,467	486,280	45,937	1,072,887	60,402	54,737	1,541,958,785	2,486,882	20,659,872	2,172,232,457	(527,335,781)			
-	-	-	145,362	-	-	-	-	491	-	-	1,730,720	-	-	3,061,781	1,983,025			
-	-	166,200,000	-	-	750,000	-	-	-	1,196,784	606,064	486,568,637	5,251,459	7,980,000	820,581,407	328,730,469			
-	-	166,200,000	145,362	-	750,000	-	-	491	1,196,784	606,064	488,299,357	5,251,459	7,980,000	823,643,188	330,713,494			
31,485	420,551	26,625,839	22,123,173	39,297	2,602,467	486,280	45,937	1,072,396	(118,382)	(551,327)	1,053,659,428	(2,764,577)	2,679,872	1,348,589,269	(858,049,275)			
42,194	6,797,497	32,120,505	717,359,225	744,692	40,017,135	2,749,021	796,402	796,402	2,954,216	1,602,226	7,946,079,492	86,174,914	152,194,918	15,033,307,352	15,891,356,627			
\$ 453,428	\$ 7,218,048	\$ 58,746,344	\$ 739,482,398	\$ 783,989	\$ 42,619,602	\$ 3,235,301	\$ 842,339	\$ 1,868,798	\$ 1817,834	\$ 1,050,899	\$ 8,999,738,920	\$ 83,410,337	\$ 164,874,790	\$ 16,381,896,621	\$ 15,033,307,352			

North Dakota Retirement and Investment Office
Pension and Investment Trust Funds – Schedule of Administrative Expenses
Years Ended June 30, 2023 and 2022

	Pension Trust		Investment Trust	
	2023	2022	2023	2022
Salaries and wages:				
Salaries and wages	\$ 987,936	\$ 715,193	\$ 1,655,919	\$1,029,330
Fringe benefits	576,853	266,732	765,024	345,578
Total salaries and wages	<u>1,564,789</u>	<u>981,925</u>	<u>2,420,943</u>	<u>1,374,908</u>
Operating expenses:				
Travel	33,818	11,262	31,330	33,400
Supplies	4,078	2,868	2,280	2,205
Postage and Mailing Services	19,676	23,141	2,676	2,684
Printing	9,086	7,278	1,153	377
Small Office Equipment and Furniture	11,556	411	15,229	229
Insurance	571	627	669	565
Rent/Lease of Building Space	50,507	60,273	44,558	48,998
Repairs	103	343	127	311
Information Technology & Communications	219,140	731,795	677,924	607,010
Professional Development	29,079	14,024	16,859	6,683
Operating Fees and Services	30,970	21,318	78,535	36,827
Professional Fees and Services	82,890	23,456	78,683	82,485
Consultant Services	449,274	433,910	76,326	64,702
Total operating expenses	<u>940,748</u>	<u>1,330,706</u>	<u>1,026,349</u>	<u>886,476</u>
Pension trust portion of investment program expenses	385,510	278,358	(385,510)	(278,358)
Depreciation	-	1,350	-	-
Total administrative expenses	<u>2,891,047</u>	<u>2,592,339</u>	<u>3,061,781</u>	<u>1,983,025</u>
Capital assets purchased	<u>1,899,328</u>	<u>680,999</u>	-	-
Less - nonappropriated items:				
Consultant Services	193,110	235,531	76,326	64,702
Other operating fees paid under continuing appropriation	156,181	112,952	775,741	542,265
Depreciation	-	1,350	-	-
Retainage Payable	170,367	29,876	-	-
Accrual adjustments to employee benefits	231,833	6,799	268,569	33,727
Total nonappropriated items	<u>751,491</u>	<u>386,508</u>	<u>1,120,636</u>	<u>640,694</u>
Total appropriated administrative expenses	<u>\$4,038,884</u>	<u>\$2,886,830</u>	<u>\$ 1,941,146</u>	<u>\$1,342,332</u>

The accompanying notes are an integral part of these statements.

North Dakota Retirement and Investment Office
Pension and Investment Trust Funds – Schedule of Consultant Expenses
Years Ended June 30, 2023 and 2022

	Pension Trust		Investment Trust	
	2023	2022	2023	2022
Actuary fees:				
Segal Consulting	\$121,476	\$122,505	\$ -	\$ -
GRS Consulting	30,000	-		
Total Actuary Fees	151,476	122,505	-	-
Auditing/Accounting fees:				
CliftonLarsonAllen LLP	15,750	84,999	15,750	22,460
Total Auditing Fees	15,750	84,999	15,750	22,460
Project management fees:				
Segal Consulting	255,599	185,909	-	-
Disability consulting fees:				
Sanford Health	250	150	-	-
Legal fees:				
K&L Gates LLP	1,351	10,649	(1,351)	13,936
Jackson Walker LLP	12,101	9,204	44,659	15,487
ND Attorney General	12,747	20,494	17,268	12,819
Total legal fees:	26,199	40,347	60,576	42,242
Total consultant expenses	<u>\$449,274</u>	<u>\$433,910</u>	<u>\$ 76,326</u>	<u>\$ 64,702</u>

North Dakota Retirement and Investment Office
Pension and Investment Trust Funds – Schedule of Investment Expenses
Years Ended June 30, 2023 and 2022

	Pension Trust		Investment Trust	
	2023	2022	2023	2022
Investment managers' fees:				
Global equity managers	\$ 515,749	\$ 1,082,859	\$ 740,726	\$ 1,482,461
Domestic large cap equity managers	1,796,585	621,946	8,074,428	3,258,391
Domestic small cap equity managers	786,323	925,653	3,979,688	5,993,667
International equity managers	1,041,416	1,068,362	7,211,790	8,552,582
Emerging markets equity managers	385,510	485,198	618,253	810,411
Domestic fixed income managers	1,116,310	1,586,971	13,911,661	14,784,472
Below investment grade fixed income managers	3,396,552	3,376,915	4,768,510	4,759,365
Diversified real assets managers	-	-	11,127,133	17,487,844
Real estate managers	(988,076)	3,001,837	1,439,900	7,053,553
Infrastructure managers	3,430,215	5,365,053	4,501,620	7,152,670
Timber managers	256,928	296,841	314,297	360,769
Private equity managers	3,170,639	4,099,850	5,918,907	6,142,169
Short term fixed income managers	-	-	879,205	867,223
Cash & equivalents managers	29,028	29,166	232,094	172,683
Balanced account managers	-	-	1,041,945	1,173,541
Total investment managers' fees	\$ 14,937,179	\$ 21,940,651	\$ 64,760,157	\$ 80,051,801
Custodian fees	252,016	268,454	1,205,164	1,329,330
Investment consultant fees	106,622	109,610	674,998	460,346
SIB Service Fees	-	-	110,708	81,809
Total investment expenses	\$ 15,295,817	\$ 22,318,715	\$ 66,751,027	\$ 81,923,286

Reconciliation of investment expenses to financial statements

	2023	2022	2023	2022
Investment expenses as reflected in the financial statements	\$ 7,468,043	\$ 6,924,716	\$ 34,820,522	\$ 32,154,613
Plus investment management fees included in investment income				
Domestic large cap equity managers	195,757	298,153	974,905	1,728,963
Domestic small cap equity managers	-	-	-	-
International equity managers	105,741	362,238	1,143,953	2,790,698
Emerging markets equity managers	109,165	152,835	174,357	254,438
Domestic fixed income managers	674,004	832,128	9,027,380	8,925,752
Below investment grade fixed income managers	3,010,844	2,980,786	4,508,405	4,296,493
Diversified real assets managers	-	-	9,241,197	15,829,379
Real estate managers	(2,623,992)	1,342,660	(3,770,955)	2,199,487
Infrastructure managers	2,949,837	5,028,508	3,871,352	6,703,285
Timber managers	235,779	296,841	286,557	360,769
Private equity managers	3,170,639	4,099,850	5,918,907	6,142,169
Cash equivalents managers	-	-	213,873	155,167
Balanced account managers	-	-	340,574	382,073
Investment expenses per schedule	\$ 15,295,817	\$ 22,318,715	\$ 66,751,027	\$ 81,923,286

North Dakota Retirement and Investment Office
 Schedule of Appropriations – Budget Basis – Fiduciary Funds
 July 1, 2021 to June 30, 2023 Biennium

	Approved 2021-2023 Appropriation	2021-2023 Appropriation Adjustment	Adjusted 2021-2023 Appropriation	Fiscal 2023 Expenses	Fiscal 2022 Expenses	Unexpended Appropriations
All Fund Types:						
Salaries and wages	\$ 5,053,977	\$ 1,794,743	\$ 6,848,720	\$ 3,485,332	\$ 2,316,308	\$ 1,047,080
Operating expenses	1,248,528	2,393,875	3,642,403	1,274,635	897,298	1,470,470
Capital Assets	-	6,300,000	6,300,000	1,214,874	934,913	4,150,214
Contingency	100,000	-	100,000	5,187	80,645	14,168
Total	<u>\$ 6,402,505</u>	<u>\$ 10,488,618</u>	<u>\$ 16,891,123</u>	<u>\$ 5,980,028</u>	<u>\$ 4,229,164</u>	<u>\$ 6,681,931</u>

NOTE: Only those expenses for which there are appropriations are included in this statement.

Reconciliation of Administrative Expenses to Appropriated Expenditures

	2023	2022
Administrative expenses as reflected in the financial statements	\$ 5,952,828	\$ 4,575,365
Plus:		
Capitalized software purchases - appropriated	1,899,328	680,999
Less appropriated accrual expense		
Retainage Payable	(170,367)	(29,876)
Less expenses paid under continuing appropriation:		
Consulting Services*	(269,436)	(300,232)
Other operating fees paid under continuing appropriations*	(931,922)	(655,217)
Depreciation expense	-	(1,350)
Changes in benefit accrual amounts	(500,402)	(40,526)
Total appropriated expenses	<u>\$ 5,980,029</u>	<u>\$ 4,229,163</u>

* North Dakota Century Code 21-10-06.2 and 15-39.1-05.2 provide authorization for the continuing appropriation.

**Special Comments Requested by the Legislative Audit
and Fiscal Review Committee
Year Ended June 30, 2023**

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by auditors performing audits of state agencies. These items and our responses are as follows:

Audit Report Communications

1. What type of opinion was issued on the financial statements?

Unmodified

2. Was there compliance with statutes, laws, rules, regulations under which the agency was created and is functioning?

Yes

3. Was internal control adequate and functioning effectively?

Yes, we did not identify a control deficiency required to be reported by professional standards.

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

No

5. Has action been taken on findings and recommendations included in prior year reports?

There were no prior year findings or recommendations.

6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management response.

No

Audit Committee Communications

1. Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.

For the year ended June 30, 2023, no new accounting policies were adopted and the application of existing policies was not changed.

2. Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.

The valuation of alternative investments, including private equity and real asset investments, are a management estimate which is primarily based upon net asset values reported by the investment managers and comprise 18% of the total investment portfolio. The values for these investments are reported based upon the most recent financial data available and are adjusted for cash flows through June 30, 2023. Our audit procedures validated this approach through the use of confirmations sent directly to a sample of investment managers and the review of the most recent audited financial statements for these funds. Furthermore, we reviewed management's estimate and found it to be reasonable.

The actuarial valuation was based on the actuarial assumptions and methods adopted by the Board, including an actuarial expected investment rate of return of 7.25% per annum compounded annually. The valuation takes into account all of the promised benefits to which members are entitled as of July 1, 2023 as required by the North Dakota Century Code. The valuation provides certain information required by GASB to be disclosed in the financial statements. Additionally, the valuation is used to determine the adequacy of the current employer contribution rate. Our audit procedures included reviewing the actuarial valuation and related assumptions used therein and we believe the estimate to be reasonable.

3. Identify any significant audit adjustments.

None

4. Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to financial accounting, reporting, or auditing matters that could be significant to the financial statements.

None

5. Identify any significant difficulties encountered in performing the audit.

None

6. Identify any major issues discussed with management prior to retention.

None

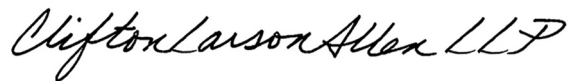
7. Identify any management consultations with other accounts about auditing and accounting matters.

None

8. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission or whether any exceptions identified in the six audit report questions addressed above are directly related to the operations of an information technology system.

Based on the audit procedures performed, the Retirement and Investment Office's critical information technology system is the CPAS system. There were no exceptions identified that were directly related to this application.

This report is intended solely for the information and use of the audit committee, management, the Legislative Audit and Fiscal Review Committee, and other state officials, and is not intended to be and should not be used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Baltimore, Maryland
November 3, 2023

MEMORANDUM

TO: SIB
FROM: Jan Murtha, Executive Director
DATE: November 9, 2023
RE: Executive Limitations

Ms. Murtha will provide a verbal update at the meeting on staff relations and strategic planning. Including updates on the following topics:

I. Strategic Planning

RIO executive team members attended the Judicial, Executive, and Legislative (JEL) meeting on October 31, 2023. Information relating to the Governor’s expectations regarding the content of strategy review sessions and timeline was provided. RIO staff will begin the strategic planning process in December with the intent to share an updated strategic plan with the Governance and Policy Review committees of both the SIB and TFFR Board in February and the full boards in March. To facilitate the strategic planning process, board and committee members will be sent a brief survey following the November board meetings.

II. New Board & Committee Member Update

Staff proposes that the next in person onboarding meeting be scheduled for Friday, December 15, 2023, at 9:00am in the WSI Board room. A Teams link will be provided for those unable to attend in person. This training would occur at the time normally reserved for the SIB meeting, however, historically the SIB has only met in December when an unanticipated issue has arisen. At this time there is not a need for a regular December meeting, therefore staff proposes the time be utilized for training. Staff has created a survey tool for onboarding sessions that will be sent out after each future session.

III. Retirements/Resignations/FTE’s/Temporary Assistance:

Position Title*	Status
Retirement Membership Specialist (temporary)	Re-posted. Unable to fill the position.

*Remaining new FTEs related to the Internal Investment program are expected to be posted in 2024.

IV. Current Project Activities/Initiatives:

- **TFFR Pioneer Project** – The TFFR Pioneer Project continues with implementation consistent with the project plan. Currently the project is in an elaboration phase involving review of system components. The amount of time spent on the project by various staff members continues to vary from 5 to 25 hours or more per week.

- **Northern Trust Initiative** – In an effort to enhance the infrastructure for the investment program the Investment and Fiscal teams continues to coordinate with Northern Trust for additional functionality/capabilities.
- **Audit Consultant Report:** Staff has created an Executive Steering committee comprised of the ED, CFO/COO, and IA Supervisor to oversee a project to implement recommendations from Weaver Consulting. A project plan for implementing the recommendations will be provided to the Audit Committee in November.
- **Compensation Study RFP:** An RFP for a Compensation Study was issued for consultant services necessary to prepare and present an incentive compensation plan for approval to the Board and develop compensation goals for agency positions. Staff finalized the contract and conducted a kick-off meeting. A final presentation will be made to both the ERCC and full SIB in February.
- **Investment Program Software Solutions:** NDIT has determined that the investment software solution to provide the necessary infrastructure for internal investment management qualifies as a large IT project. State procurement has determined that RIO's exemption from procurement processes does not apply to this project. RIO staff is working with NDIT and procurement through their process, including the creation of an executive steering committee (ESC), and project charter. The ESC is tentatively scheduled to meet for the first time by the end of November.

V. Board & Committee Presentations October 28, 2023 through November 17, 2023.

Staff attended/provided or is scheduled to attend/provide the following presentations to Boards and Committees during the above referenced time period:

- **Board/committee education session – 10/30/23**
- **JEL Leadership meeting – 10/31/23**
- **BND Interim Study Workgroup Discussion – 11/1/23**
- **SIB Investment Committee – 11/7/23**
- **TFFR GPR Committee – 11/7/23**
- **BND Interim Study Steering Committee Discussion – 11/9/23**
- **SIB GPR Committee – 11/9/23**
- **Cash Management Study – 11/13/23**
- **SIB Audit Committee – 11/14/23**
- **Retirement Committee (Legislature) – 11/15/23**
- **Employee Benefits Programs Committee (Legislature) – 11/16/23**
- **TFFR Board meeting – 11/16/23**
- **SIB meeting – 11/17/23**

VI. Awards and 2023 Engagement Survey Results

RIO has received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for fiscal year ended 2022. In addition, the TFFR program has received the Public Pension Standards Award for Funding and Administration from the Public Pension Coordinating Council for fiscal year ended 2023. The awards are included for your reference.

Further, please find following a preview of the 2023 Engagement Survey results for RIO. RIO saw statistically significant increases in five areas with a mean of 4.55 on a 5-point scale.

Board Action Requested: Board acceptance.



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

North Dakota Retirement and Investment Office

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2022

Christopher P. Morrill

Executive Director/CEO



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2023***

Presented to

North Dakota Teachers' Fund for Retirement

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in black ink that reads "Alan H. Winkle". The signature is fluid and cursive, with the first name "Alan" and last name "Winkle" clearly distinguishable.

Alan H. Winkle
Program Administrator

Employee Engagement

Q12+ Engagement Survey - trending - Regular staff - October 2023

Oct 16, 2023 - Nov 06, 2023

Reporting Group: Direct | Agency - 19000

Q¹² Mean

The Gallup Q¹² score represents the average, combined score of the 12 elements that measure employee engagement. Each element has consistently been linked to better business outcomes.

ENGAGEMENT MEAN



TRENDED MEAN

Change From Last Mean: 0.13
4.06 | 4.22 | 4.42 | 4.55

MEAN PERCENTILE RANK



Database: Gallup Overall

RESPONDENTS

22

ENGAGEMENT INDEX

*

Gallup Q¹² Items

Questions	Respondents	Current Mean	Last Mean	Change	Mean Percentile Rank - Gallup Overall	Company Overall Current Mean
Q00: Overall Satisfaction	22	4.59	4.17	▲+0.42	82	3.88
Q01: Know What's Expected	22	4.55	4.25	▲+0.30	55	4.30
Q02: Materials and Equipment	22	4.64	4.33	▲+0.31	80	4.15
Q03: Opportunity to do Best	21	4.29	4.17	0.12	57	4.04
Q04: Recognition	22	4.41	4.42	-0.01	79	3.52
Q05: Cares About Me	22	4.82	4.92	-0.10	85	4.22
Q06: Development	22	4.64	4.42	▲+0.22	83	3.94
Q07: Opinions Count	21	4.48	4.00	▲+0.48	79	3.69
Q08: Mission/Purpose	22	4.50	4.58	-0.08	73	4.07
Q09: Committed to Quality	22	4.73	4.67	0.06	85	4.06
Q10: Best Friend	21	3.95	3.91	0.04	61	3.33
Q11: Progress	21	4.71	4.58	0.13	83	3.84
Q12: Learn and Grow	22	4.95	4.83	0.12	93	4.06

Gallup Q¹² Items – Trended Details

Questions	Trended Mean	Past Report 3	Past Report 2	Past Report 1	Current Report
Q00: Overall Satisfaction	3.69 4.00 4.17 4.59	3.69	4.00	4.17	4.59
Q01: Know What's Expected	4.06 4.08 4.25 4.55	4.06	4.08	4.25	4.55
Q02: Materials and Equipment	4.31 4.33 4.33 4.64	4.31	4.33	4.33	4.64
Q03: Opportunity to do Best	4.00 3.92 4.17 4.29	4.00	3.92	4.17	4.29
Q04: Recognition	4.06 4.17 4.42 4.41	4.06	4.17	4.42	4.41
Q05: Cares About Me	4.19 4.58 4.92 4.82	4.19	4.58	4.92	4.82
Q06: Development	4.00 4.17 4.42 4.64	4.00	4.17	4.42	4.64
Q07: Opinions Count	3.69 4.00 4.00 4.48	3.69	4.00	4.00	4.48
Q08: Mission/Purpose	4.19 4.92 4.58 4.50	4.19	4.92	4.58	4.50
Q09: Committed to Quality	4.50 4.42 4.67 4.73	4.50	4.42	4.67	4.73
Q10: Best Friend	3.63 3.55 3.91 3.95	3.63	3.55	3.91	3.95
Q11: Progress	3.94 4.08 4.58 4.71	3.94	4.08	4.58	4.71
Q12: Learn and Grow	4.13 4.42 4.83 4.95	4.13	4.42	4.83	4.95

Q¹² Plus - Workplace Demands

Q¹² Plus - Workplace Demands

ENGAGEMENT MEAN

TRENDED MEAN

MEAN PERCENTILE RANK

RESPONDENTS




*

*

*

*

Database: Gallup Overall

Questions	Respondents	Current Mean	Last Mean	Change	Mean Percentile Rank - Gallup Overall	Company Overall Current Mean
At work, I am treated with respect.	22	4.68	*	*	73 	4.10
My agency cares about my overall wellbeing.	22	4.77	*	*	88 	3.81
I have received meaningful feedback in the last week.	22	4.32	*	*	64 	3.50

Basic Needs - What do I get?

Employees need to have a clear understanding of what excellence in their role looks like so they can be successful. Groups with high scores on the first element are more productive, cost-effective, creative and adaptive.

ENGAGEMENT MEAN



TRENDED MEAN

Change From Last Mean: +0.30
4.19 | 4.21 | 4.29 | 4.59

MEAN PERCENTILE RANK



Database: Gallup Overall

RESPONDENTS

22

Questions	Respondents	Current Mean	Last Mean	Change	Mean Percentile Rank - Gallup Overall	Company Overall Current Mean
Q01: Know What's Expected	22	4.55	4.25	▲+0.30	55	4.30
Q02: Materials and Equipment	22	4.64	4.33	▲+0.31	80	4.15

Individual - What do I give?

Employees want to know about their individual contributions and their worth to the organization. Manager support is especially important during this stage because managers typically define and reinforce value.

ENGAGEMENT MEAN



TRENDED MEAN

Change From Last Mean: 0.06
4.06 | 4.21 | 4.48 | 4.54

MEAN PERCENTILE RANK



Database: Gallup Overall

RESPONDENTS

22

Questions	Respondents	Current Mean	Last Mean	Change	Mean Percentile Rank - Gallup Overall	Company Overall Current Mean
Q03: Opportunity to do Best	21	4.29	4.17	0.12	57	4.04
Q04: Recognition	22	4.41	4.42	-0.01	79	3.52
Q05: Cares About Me	22	4.82	4.92	-0.10	85	4.22
Q06: Development	22	4.64	4.42	▲+0.22	83	3.94

Teamwork - Do I belong here?

Employees need to feel like they belong and are a good fit with their team. They need to know they are part of something bigger than themselves. As a manager, encourage opportunities for teamwork and a sense of belonging.

ENGAGEMENT MEAN



TRENDED MEAN

Change From Last Mean: 0.12
4.00 | 4.22 | 4.29 | 4.41

MEAN PERCENTILE RANK



Database: Gallup Overall

RESPONDENTS

22

Questions	Respondents	Current Mean	Last Mean	Change	Mean Percentile Rank - Gallup Overall	Company Overall Current Mean
Q07: Opinions Count	21	4.48	4.00	▲+0.48	79	3.69
Q08: Mission/Purpose	22	4.50	4.58	-0.08	73	4.07
Q09: Committed to Quality	22	4.73	4.67	0.06	85	4.06
Q10: Best Friend	21	3.95	3.91	0.04	61	3.33

Growth - How can I grow?

Employees need to be challenged to learn something new and find better ways to do their jobs. They need to feel a sense of movement and progress as they mature in their roles.

ENGAGEMENT MEAN



TRENDED MEAN

Change From Last Mean: 0.12
4.03 | 4.25 | 4.71 | 4.83

MEAN PERCENTILE RANK



Database: Gallup Overall

RESPONDENTS

22

Questions	Respondents	Current Mean	Last Mean	Change	Mean Percentile Rank - Gallup Overall	Company Overall Current Mean
Q11: Progress	21	4.71	4.58	0.13	83	3.84
Q12: Learn and Grow	22	4.95	4.83	0.12	93	4.06

Engagement Index

There is a powerful link between employees who are engaged in their jobs and the achievement of crucial business outcomes.

ENGAGEMENT INDEX RATIO

*

ENGAGEMENT INDEX

*

Engaged

Employees are highly involved in and enthusiastic about their work and workplace. They are psychological "owners", drive performance, innovation, and move the organization forward.

Not Engaged

Employees are essentially psychologically unattached to their work and company. Because their engagement needs are not being fully met, they're putting time – but not energy or passion – into their work.

Actively Disengaged

Employees aren't just unhappy at work – they are resentful that their needs are not being met and are busy acting out their unhappiness. Every day, these workers potentially undermine what their engaged coworkers accomplish.

Footnotes

Trended Report Details

	Report Name	Date
Current Report	Q12+ Engagement Survey - trending - Regular staff - October 2023	Oct 16, 2023 - Nov 06, 2023
Past Report 1	Q12 Engagement Survey - trending - Regular staff - October 2022	Oct 17, 2022 - Nov 07, 2022
Past Report 2	ND State EE Engagement Survey - trending - Oct. 2021	Oct 18, 2021 - Oct 31, 2021
Past Report 3	North Dakota State Employee Engagement Survey 2020	Nov 30, 2020 - Dec 15, 2020

* - Scores are not available due to data suppression.

Respondents can select multiple responses for multi-select questions.

Not shown if $n < 4$ for Mean, Top Box, Verbatim Responses, and Sentiment, $n < 10$ for Frequency, or data is unavailable.

Mean Percentile Rank is being calculated against other workgroup scores in the Gallup Overall database.

Meaningful change is represented by a green or red arrow if the score changes by 0.2 or more between survey periods.

Percentile Rank in Gallup Overall Database

■ < 25th Percentile ■ 25-49th Percentile ■ 50-74th Percentile ■ 75-89th Percentile ■ \geq 90th Percentile

*All text analytics are machine generated. Because we use machine learning to generate sentiments, results may not be 100% accurate.

*Percent Engaged available when $n \geq 30$. All categories available when $n \geq 100$.

* - Scores are not available due to data suppression.

Respondents can select multiple responses for multi-select questions.

Thank You



INTERNAL AUDIT OVERVIEW

Sara Seiler, Supervisor of Internal Audit

HISTORY OF INTERNAL AUDIT AT RIO

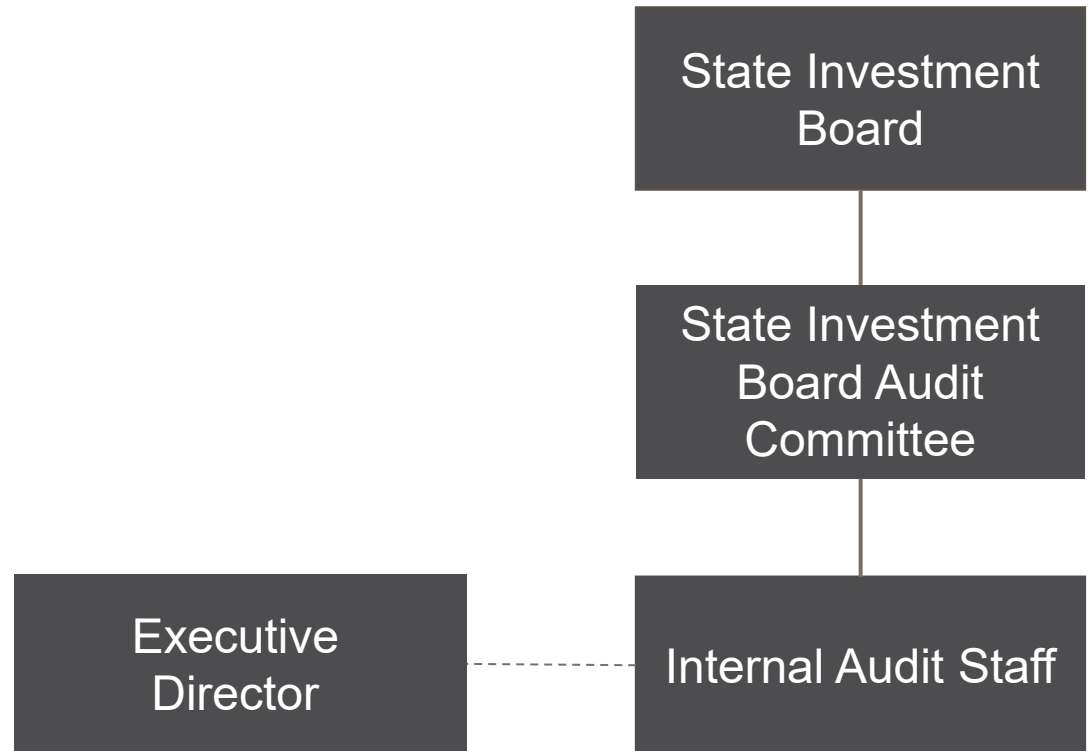
- Internal Audit Division established in the 1990s with two staff members.
 - Functioned more as a compliance division than internal audit.
- In 2018, started shift to more internal audit and less compliance.
- RIO went through a transformation change from 2020 to 2022.
- In August 2022, started a project to review the division to ensure internal audit can meet agency needs.
- Issued an RFP and hired Weaver to review the division.
- Weaver issued recommendations May 2023.
- Working group established in July 2023 to work on implementing recommendations.

SIB AUDIT COMMITTEE

- Standing Committee of the State Investment Board (SIB).
- Consist of five members:
 - Three SIB members.
 - Two external professionals.
- The primary objective of the internal audit function is to assist the SIB and management in the effective discharge of their responsibilities.
- The committee is authorized to provide oversight to the internal audit function and the independent audit for the RIO.

INTERNAL AUDIT STRUCTURE

Reports administratively to Executive Director and functionally to the SIB's Audit Committee.



THREE LINES MODEL

Governing Body – organizational oversight.

Management – achieve organizational objectives.

First line – managing risk.

Second line – support and monitoring on risk related matters.

Internal Audit – independent assurance.

Third line – independent and objective assurance.

INSTITUTE OF INTERNAL AUDITORS STANDARDS

RIO's Internal Audit Division is working toward being in compliance with Institute of Internal Auditors (IIA) standards.

IIA's standards are currently being revised. Revised standards are to be issued early 2024.

2024 IIA STANDARDS PROPOSED CHANGES

1. New name.
2. Structure.
3. Sections in each standard.
4. Purpose of internal auditing.
5. Ethics and professionalism domain and standards.
6. Governing domain and standards.
7. New and different requirements for quality assurance and improvement program.
8. Special attention to the public sector.
9. Rigorous standard-setting process, with increased focus on stakeholder and public interest.
10. New terms and expanded glossary.

10 MAJOR CHANGES: <https://www.theiia.org/en/standards/ippf-evolution/>

QUESTIONS?

Sara Seiler, sseiler@nd.gov

Dottie Thorsen, dthorsen@nd.gov

Retirement & Investment Office

1600 E Century Ave

PO Box 7100

Bismarck, ND 58507-7100

701-328-9885 or 800-952-2970



NORTH
Dakota
Be Legendary.

Retirement & Investment



MEMORANDUM

TO: SIB Audit Committee
FROM: Sara Seiler, Supervisor of Internal Audit
DATE: November 7, 2023
RE: Internal Audit Maturity Development Work Plan

I. Introduction

As discussed at the August 2, 2023, SIB Audit Committee meeting, a working group was formed consisting of the Executive Director, Chief Financial Officer/Chief Operating Officer, and the Supervisor of Internal Audit to work on the implementation of the Weaver recommendations presented in May 2023. The working group has been meeting over the last few months reviewing, the recommendations and creating a work plan. The working group reviewed the Audit Committee and Internal Audit charters and incorporated the recommended changes. The scope and the timeline for the request for proposal (RFP) was reviewed.

II. Proposed Work Plan

Timeframe	Activity
November 2023	Project Plan Presentation to A.C. Update Internal Audit Charter
December 2023	Issue RFP for: <ul style="list-style-type: none"> • Risk Assessment (Investment & Fiscal Divisions) • Audit Manual (compliance with new IIA standards) <ul style="list-style-type: none"> ○ Policies & Procedures • Templates
November 2023 – June 2024	Continue working on recommendations internally to complete short-term & mid-term goals
January / February 2024	Evaluate RFP, Select, & Kickoff <ul style="list-style-type: none"> • Potential Special Audit Committee meeting to interview finalists
February 2024	Progress update to Audit Committee
February – August 2024	Work with selected vendor on risk assessment, audit manual & templates

Timeframe	Activity
March/April 2024	Evaluate budget needs for 25-27 biannual regarding: <ul style="list-style-type: none"> • Training • Resources • Data Analytics • Quality Assurance Review
May 2024	Progress update to Audit Committee
May /June 2023	Risk Assessment for Retirement Division – Internally
Approx. July 2024	Implement new policies & procedures for all Internal Audits
August 2024	Bring updated Audit Plan to A.C. Necessary changes to Internal Audit Charter reflecting updated IIA standards. Evaluate progress of IA maturity

COMMITTEE ACTION REQUESTED: Discuss and approve work plan.



MEMORANDUM

TO: SIB Audit Committee
FROM: Sara Seiler, Supervisor of Internal Audit
DATE: November 7, 2023
RE: Internal Audit Maturity RFP Highlights

The Supervisor of Internal Audit along with the Executive Director and the Chief Financial Officer/Chief Operating Officer developed the following request for proposal (RFP). The Audit Committee should review the following sections to ensure the scope, timeline, and deliverables are acceptable.

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RFP Schedule	4 - 5
Scope of Work	10 - 11
Deliverables	11 -12
Experience and Qualifications	12
Evaluation Criteria	18
Presentations, Demonstrations, and Site Visits	19
Technical Proposal Evaluation Worksheet	27 - 29

The SIB Audit Committee needs to decide if they would like to be a part of the selection of the firm for this RFP or they would like to delegate the authority to staff. If the Audit Committee wants to be a part of the selection process, a special Audit Committee meeting could be held in January of 2024 to hear the finalist presentations for selection. If the Audit Committee would like to delegate the authority to staff, staff would score the RFPs and award to the highest score. The firm could then attend the Audit Committee meeting in February 2024.

COMMITTEE ACTION REQUESTED: Approve RFP desired and method for selection.

STATE OF NORTH DAKOTA

ND State Investment Board
ND Teacher's Fund for Retirement
ND Retirement & Investment Office
1600 E Century Ave, Ste 3
P.O. Box 7100
Bismarck, ND 58507

REQUEST FOR PROPOSAL (RFP)

RFP Title: Internal Audit Maturity Development

RFP Number: 110.7-23-102

Issued: November 20, 2023

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ATTACHMENTS

- Attachment A – Cost Proposal Template
- Attachment B – Technical Proposal Evaluation Worksheet
- Attachment C – Contract

SECTION ONE – INSTRUCTIONS

1.1 PURPOSE OF RFP

The State of North Dakota, acting through its ND Retirement and Investment Office (the STATE) is soliciting proposals for a co-sourcing relationship to complete a risk assessment, internal audit manual, develop templates, and provide consulting services as needed.

1.2 PROCUREMENT OFFICER CONTACT INFORMATION

The Procurement Officer is the point of contact for this RFP. Offerors shall direct all communications regarding this RFP to the Procurement Officer. Do not add the Procurement Officer to any marketing distribution lists.

PROCUREMENT OFFICER: Gabiel Hoggarth

EMAIL: gjhoggarth@nd.gov

PHONE: 701-328-2740

TTY Users call: 7-1-1

A person or firm interested in submitting a proposal should ensure all communications related to the procurement are only with the designated point of contact. This section does not restrict communication with state officials or any member of the legislative assembly unless the state official or member of the legislative assembly is involved directly with the procurement for which the person is interested or has submitted a bid or proposal ([N.D.C.C. § 54-44.4-01.1](#)).

Engaging in unauthorized communication or seeking to obtain information about an open solicitation with any state employee or official other than the responsible Procurement Officer or designee is sufficient grounds for suspension or debarment. ([N.D.A.C. § 4-12-05-04\(7\)](#))

1.3 DEFINITIONS

For the purposes of this RFP, the acronyms and defined terms are as follows:

Acronym or Term	Name or Definitions
Contractor	Entity that has an approved contract with the State of North Dakota
CT	Central Time Zone
OMB	Office of Management and Budget
RFP	Request for Proposal
Solicitation Closing	Deadline for receipt of proposals listed in the RFP Schedule
SPO	Office of Management and Budget, State Procurement Office
SPO Online	State Procurement Office Online system
RIO	Retirement and Investment Office
TFFR	Teacher's Fund for Retirement
SIB	State Investment Board
IIA	Institute of Internal Auditors

1.4 RFP SCHEDULE

EVENT	DATE and TIME
RFP issued	November 20, 2023
Deadline for submission of Questions and Objections	December 4, 2023 by 12:00 PM, CT

EVENT	DATE and TIME
Solicitation Amendment with responses to Questions issued approximately (if required)	December 7
Deadline for receipt of proposals (Solicitation Closing)	December 22, 2023 by 12:00 PM, CT
Proposal evaluation completed by approximately	January 5, 2023
Presentations (if required)	January 17, 2023
Notice of intent to award issued approximately	January 18, 2023
Secretary of State Registration, if determined to be required.	Prior to Contract Signing
Contract start approximately	February 1, 2023

1.5 ASSISTANCE TO INDIVIDUALS WITH A DISABILITY

Contact the Procurement Officer, as soon as possible, if an individual with a disability needs assistance with the RFP, including any events in the RFP schedule, so reasonable accommodations can be made.

1.6 SECRETARY OF STATE REGISTRATION REQUIREMENTS

The North Dakota Secretary of State has registration requirements for individuals and businesses transacting business in North Dakota. If the successful Offeror is determined to have a registration requirement with the North Dakota Secretary of State, they must be registered before the contract award and registration must remain active for the duration of the contract period ([N.D.C.C. § 54-44.4-09.1](#))

- See the OMB [Guidelines to Vendor Registry](#) for more information.

Visit the Secretary of State's [Vendor Registration](#) webpage for information on registration requirements and fees. Visit [FirstStop](#), the Secretary of State's business and licensing software, for online form options.

- Check the [Business Records](#) database to see if a business is registered.
- Contact Secretary of State's office by [email](#) or call 701-328-2900 (choose menu item 2, then option 1).
- If you need to register, fees apply.
- Vendors may need to obtain businesses licenses. See the [list of licenses required of businesses](#) in the State of North Dakota. The link includes information on who to contact, application fees, renewal dates, and the legal reference.

1.7 BIDDERS LIST REGISTRATION

Individuals or business entities desiring to be notified of bidding opportunities may apply to be placed on the Bidders List. ([N.D.C.C. § 54-44.4-09](#)) Bidders Lists are used to notify vendors when solicitations are issued on the State Procurement Office Online system (SPO Online). Placement on the Bidders List does not guarantee a vendor will receive notice of every solicitation ([N.D.A.C. § 4-12-05-01](#)). There are no fees to register as a bidder. The online application form requests contact information for the receipt of solicitation notices. The Bidders List application and SPO Online system use commodity codes to identify categories of goods, services, and information technology.

The commodity codes used for this solicitation are: 946-12, 946-20, 918-04, 918-40, 946-45, 946-56, 946-75, 918-49, and 918-83.

Visit the OMB website for instructions and the online Bidders List Application:

[Bidders List Registration Website](#)

For assistance with Bidders List Registration, contact State Procurement Help Desk at 701-328-1728 or infospo@nd.gov.

1.8 STATE PROCUREMENT WEBSITE (SPO ONLINE)

This RFP and any related amendments and notices will be posted on the North Dakota OMB website using SPO Online. Offerors are responsible for checking this website to obtain all information and documents related to this RFP: <https://apps.nd.gov/csd/spo/services/bidder/main.htm>

Select "Recent Solicitations". Recent Solicitations are listed by close date.

Notices related to this RFP will be sent to the Bidders List for the needed commodity or service and other known potential Offerors.

Offerors not having completed the Bidders List registration may request to receive notices related to this RFP by contacting the Procurement Officer in writing with the following information: RFP title, business name, contact person, mailing address, telephone number, and email address.

1.9 AMENDMENTS TO THE RFP

If an amendment to this RFP is issued, it will be provided to all Offerors on the Bidders List for the solicitation and to those prospective Offerors who have contacted the Procurement Officer to receive notices related to the RFP. An Offeror shall include in their proposal any required acknowledgements of amendments to the RFP.

1.10 DEADLINE FOR QUESTIONS AND OBJECTIONS

Offerors should carefully review the RFP including all Attachments. Offerors may ask questions to obtain clarification and request additional information, or object to material in the RFP. Questions and objections must be submitted to the Procurement Officer in writing by the deadline identified in the RFP Schedule. If no deadline is specified, questions or objections must be received at least seven days prior to the Solicitation Closing deadline. The Procurement Officer may elect to respond to questions received after the deadline.

Questions and objections should include a reference to the applicable RFP section or subsection. Email is the preferred method of submission with the RFP number and title cited in the email subject line.

Responses to questions will be distributed as a solicitation amendment unless the question can be answered by referring the Offeror to a specific section of the RFP.

1.11 PREPROPOSAL CONFERENCE OR SITE INSPECTION

The STATE will not hold a preproposal conference or site inspection for this RFP.

1.12 OFFER HELD FIRM

Offerors must hold proposals firm for at least 90 days from the deadline for receipt of proposals (Solicitation Closing). The STATE may send a written request to all Offerors to hold their offer firm for a longer period of time.

1.13 OFFEROR RESPONSIBLE FOR COSTS

Offeror is responsible for all costs associated with the preparation, submittal, and evaluation of any proposal including any travel and per diem associated with demonstrations and presentations.

1.14 TAXES

The STATE is not responsible for and will not pay itemized local, state, or federal taxes. Purchases of tangible personal property made by a state government agency is exempt from sales tax. The state sales tax exemption number is E-2001, and certificates will be furnished upon request by the purchasing agency. The contractor must provide a valid Vendor Tax Identification Number as a provision of the contract.

The purchasing agency will determine if services provided under this contract are Form 1099 reportable. The purchasing agency may require the contractor to submit an IRS Form W-9.

The state tax exemption number should not be used by contractors in the performance of a contract.

A contractor or service provider performing any contract, including service contracts, for the United States Government, State of North Dakota, counties, cities, school districts, park board or any other political subdivisions within North Dakota is not exempt from payment of sales or use tax on materials, tangible personal property, and supplies used or consumed in carrying out contracts. In these cases, the contractor is required to file returns and pay sales and use tax just as required for contracts with private parties. Contact the North Dakota Tax Department at 701-328-1246 or visit their website at <https://www.nd.gov/tax/tax-resources/> for more information.

A contractor performing any contract, including a service contract, within North Dakota is also subject to the corporation income tax, individual income tax, and withholding tax reporting requirements, whether the contract is performed by a corporation, partnership, or other business entity, or as an employee of the contractor. In the case of employees performing the services in the state, the contractor is required to withhold state income tax from the employees' compensation and remit to the state as required by law. Contact the North Dakota Tax Department at 701-328-1248 or visit their website for more information.

1.15 PROPOSAL RECEIPT DEADLINE – LATE PROPOSALS REJECTED

An Offeror is solely responsible for ensuring their proposal is received by the STATE prior to the Solicitation Closing deadline identified in the RFP schedule regardless of the method of submission. A solicitation amendment will be issued if this deadline is changed. An Offeror may contact the Procurement Officer to inquire whether their proposal has been received. Proposals delivered late will be rejected pursuant to [N.D.A.C. § 4-12-08-13](#).

1.16 PROPOSAL OPENING

A public opening will not be held.

This is a formal sealed Request for Proposal (RFP) process. Proposals will be secured and held unopened until the Solicitation Closing deadline. Per [N.D.A.C § 4-12-08-04](#), the openings may be made public at the discretion of the purchasing agency. If a public opening is held, only the names of Offerors that submitted proposals can be revealed at the opening, and each proposal will be opened in a manner to avoid disclosure of the contents to the competing Offerors.

1.17 AMENDMENT AND WITHDRAWAL OF PROPOSALS

Offeror may amend, supplement, or withdraw proposal prior to the Solicitation closing deadline. No changes will be accepted after the Solicitation closing deadline. After the Solicitation closing deadline, Offeror may make a written request to withdraw their proposal and shall provide evidence that a substantial mistake has been made, at which point the STATE may permit withdrawal.

1.18 NEWS RELEASES

Offerors shall not make any news releases related to this RFP without prior approval of the STATE.

1.19 CONFLICT OF INTEREST

Under state laws and rules, a state employee or official shall not participate directly or indirectly in a procurement when the state employee or official knows of a conflict of interest. Potential conflicts of interest include state employees or their immediate family members employed by the firm, seeking employment with the firm, or with a financial interest in the firm. Potential conflicts of interest will be addressed in accordance with [N.D.A.C. § 4-12-04-04](#). ([N.D.C.C. § 12.1-13-03](#))

Persons employed by the State of North Dakota, or within one year thereafter, may be prohibited from acquiring a pecuniary interest in a public contract or transaction. Offerors should review [N.D.C.C. § 12.1-13-02](#) to ensure compliance and avoid such conflict(s) of interest.

1.20 ATTEMPT TO INFLUENCE PROHIBITED

Offerors must not give or offer to give anything to a state employee or official that might influence or appear to influence procurement decisions. Suspected attempts to influence will be handled in accordance with [N.D.A.C. § 4-12-04-05](#).

1.21 COLLUSION PROHIBITED

Offerors must prepare proposals independently, without collusion. Suspected collusion will be handled in accordance with [N.D.A.C. § 4-12-04-06](#).

1.22 PROTEST AND APPEAL

An interested party may protest a solicitation pursuant to [N.D.C.C. § 54-44.4-12](#) and [N.D.A.C. § 4-12-14-01](#). When a solicitation contains a deadline for submission of questions and objections, protests of the solicitation will not be allowed if these faults have not been brought to the attention of the Procurement Officer before the specified deadline. If no deadline for questions is specified, protests based upon defects in the solicitation must be made at least seven calendar days before the deadline for receipt of proposals.

An Offeror that has submitted a response to a solicitation and is aggrieved may protest an award or notice of intent to award pursuant to [N.D.C.C. § 54-44.4-12](#) and [N.D.A.C. § 4-12-14-02](#). The protest must be submitted in writing to the Procurement Officer during the protest period, which is seven calendar days beginning the day after the notice of intent to award is issued.

The protestor may appeal the decision of the Procurement Officer to the Director of OMB or designee in writing within seven calendar days after receiving notice of the decision pursuant to [N.D.C.C. § 54-44.4-12](#) and [N.D.A.C. § 4-12-14-03](#).

1.23 SPECIFICATIONS PREPARED BY NON-STATE PERSONNEL

When a purchasing agency has specifications prepared by someone other than a state employee or official on behalf of the STATE, that person or business entity must be excluded from submitting bids or proposals in accordance with [N.D.A.C. § 4-12-06-06](#).

1.24 SUPPLIER REGISTRATION (PAYEE)

The successful Offeror will be required to complete Supplier Registration, if not already registered as a Supplier. Any individual or business who will be receiving payment from a state agency or higher education institution must complete a registration process to collect important financial and taxpayer information. Payments are generally made by check or automatic clearing house (ACH), and taxpayer information must be collected in compliance with IRS requirements. The State and North Dakota University System (NDUS) have separate financial systems and vendor registration processes.

SECTION TWO – BACKGROUND

2.1 BACKGROUND INFORMATION

The North Dakota Retirement and Investment Office (RIO) was established in 1989 to coordinate the activities of the State Investment Board (SIB) and the Teachers' Fund for Retirement (TFFR) as stated in Section 54-52.5-01 of the North Dakota Century Code. The mission of the North Dakota Retirement and Investment Office (RIO) is to provide prudent and transparent investment services for our client funds and support North Dakota public school educators with responsible benefit administration.

RIO administers two programs the investment program and the retirement program. The Internal Audit Division reports to the SIB Audit Committee which is a standing committee of the SIB. The Internal Audit Division has two full-time internal auditors. Its primary function is to assist the SIB in fulfilling its oversight and responsibilities to the RIO internal and external audit programs, including financial reporting process, internal controls, and compliance with laws, regulations, policies, procedures, and provides the internal audit function for the retirement program. TFFR Board oversees the retirement program.

The SIB is established in Chapter 21-10 of the North Dakota Century Code (NDCC) and has statutory responsibility for the administration of the investment program of several funds including the Teachers' Fund for Retirement, the Public Employees Retirement System, the Workforce Safety & Insurance Fund, and the Legacy Fund. The SIB also maintains contractual relationships for investment management with certain political subdivisions. The investment program is highly sophisticated with ten asset classes and approximately 43 external investment manager relationships. The investments are pooled into three distinct groups, pension, insurance, and Legacy Fund, and includes 28 state and local government funds. All investments are currently managed externally. The investment program has had significant growth in the past decade and is now implementing internal investing.

The mission of the TFFR division is to administer a comprehensive retirement program that provides North Dakota public educators with a foundation for retirement and security. The retirement program is currently implementing a multi-year pension system software upgrade. The TFFR has approximately 24,000 active, inactive, and retired members and over 200 employers.

Additional information about RIO and SIB can be found here:

<https://www.rio.nd.gov/>

2022 Annual Comprehensive Financial Report:

<https://www.rio.nd.gov/sites/www/files/documents/PDFs/RIO/Reports/annualreport2022.pdf>

SIB Governance Manual:

<https://www.rio.nd.gov/sites/www/files/documents/PDFs/SIB/Board/GovernanceManual.pdf>

TFFR Program Manual:

<https://www.rio.nd.gov/sites/www/files/documents/PDFs/TFFR/teachersprogrammanual.pdf>

SIB Audit Committee Charter:

<https://www.rio.nd.gov/sites/www/files/documents/PDFs/SIB%20Audit/Board/Audit%20Comm%20Charter.pdf>

SECTION THREE – SCOPE OF WORK

3.1 SCOPE OF WORK

Internal Audit Development:

This will be a co-sourcing relationship to assist the internal audit division in the following:

- Conducting and documenting a risk assessment over the investment division and fiscal division of RIO
- Developing a risk-based audit plan.
- The development of an Internal Audit Manual consistent with 2024 Institute of Internal Auditors (IIA) standards which includes:
 - Audit Planning
 - Risk Assessment
 - Audit Execution and Oversight
 - Reporting and Communication
 - Follow Up Activities
 - Quality Assurance
 - Consulting and Advisory Engagement
- The review of standard documentation/work paper templates to ensure the identification of sufficient, reliable, relevant, and useful information is consistently applied during audit execution. Including but not limited to:
 - Source of the evidence and date obtained.
 - Objective of the procedure.
 - Procedures performed.
 - Sampling methodology, as applicable
 - Results.
 - Conclusions.
- The development of consulting engagement procedures and incorporate into the audit manual in alignment with 2024 IIA standards. Procedures include:
 - Methodology to accept consulting engagements and include in the audit plan, as well as consideration of risks to engagement objectives.
 - Documented understanding with management on objectives, scope, and other engagement details
 - Development of the engagement work plan
 - Tracking system for consulting engagement results to tie into risk management practices and internal audit planning.
- The review with all necessary templates to ensure compliance with the newly developed Internal Audit Manual and procedures.
- Review Audit Committee Charter and Internal Audit Charter for compliance with 2024 IIA standards and recommend any necessary changes for compliance.
- Provide RIO staff with progress reports.

Consulting Services:

The consultant will be required to serve on an ongoing basis in an advisory and review capacity to RIO staff and SIB Audit Committee, as required based on an hourly fee for services rate. Prior to initiating any efforts under this area, authorization must be given by the Executive Director of RIO. Any work

efforts the consultant completes or initiates that are not authorized will not be reimbursed. This consulting will primarily consist of any other policies, procedures, or reviews the Internal Audit Division may need to get into compliance with the 2024 IIA standards.

3.2 APPLICABLE DIRECTIVES

The contractor is responsible for identifying and complying with all state and federal requirements that apply to the contract.

3.3 REQUIREMENTS

A. DELIVERABLES

The contractor will be required to provide the following to achieve the objective of this project:

1. See Section 3.1 Scope of Work
2. Regular Updates (at least biweekly)
3. Quarterly Updates for SIB Audit Committee

B. LOCATION OF WORK/TRAVEL

No on-site work is required.

C. STATE-FURNISHED PROPERTY/SERVICES

The STATE will provide past reports as requested and staff will be available to assist in giving explanation of the history of agency when needed.

D. PROJECT MANAGEMENT PLAN

The contractor will be expected to use appropriate project management to ensure the work is accomplished on time, within budget, and meets quantity and quality standards.

1. The contractor will be required to collaborate with the STATE to agree upon the contract schedule, including a work breakdown, schedule of tasks and activities, and progress milestones.
2. The contractor will be required to coordinate with the STATE to develop a communication plan. Any problems or unforeseen events must be communicated timely to the STATE project manager and any changes must be agreed upon between the parties and set forth in a written amendment to the contract. If the STATE requires corrective action, the contractor will be notified in writing.
3. Contract Closeout Plan

When the contract is completed, the STATE and contractor will communicate regarding the contract closeout, including transition of any records. A contract closeout debrief may be performed at the discretion of the Procurement Officer or project manager designated by the STATE. The debriefing time and location will be negotiated between the STATE and contractor. The contractor must collaborate in the development of a Project Closeout Report to include feedback regarding the project implementation and any lessons learned.

E. CONTRACT TERM, SCHEDULE, AND DELIVERABLES

1. Contract Term

The length of this contract will be from the date of award, approximately February 1, 2024, for approximately one (1) year until completion. See the attached contract for extension provisions.

2. Schedule and Deliverables

The STATE has identified the following deliverables which are significant work products or milestones in the project. The STATE requires these deliverables to be addressed in the Contract Schedule, at a minimum. The contractor shall develop a schedule for accomplishing the Scope of Work, including these specific deliverables. The final schedule shall be agreed upon between the STATE and the successful Offeror and incorporated into the contract. The approximate schedule for this contract is as follows:

- a. Contract start: February 1, 2024
- b. "Kick off" meeting/conference call: Within two weeks of signing contract.
- c. Contractor submits project process report: May 1, 2024
- d. Risk Assessment for Investments and Fiscal Division Completed by June 30, 2024
- e. Contractor submits project process report: August 1, 2024
- f. Internal Audit Manual, procedures, policies, and templates by August 31, 2024
- g. Contract Closeout Plan: October 2024

3.4 EXPERIENCE AND QUALIFICATIONS

A. Minimum Qualifications & Experience

The Offeror must meet the following experience requirements to be considered for contract award. A proposal from the Offeror that does not meet minimum experience requirements will be rejected.

Review Firm:

- 1) Must have a minimum of five (5) years of experience with auditing internal and external investment operations for public investment programs. At least three (3) of your clients must be listed as references.
- 2) Must have a minimum of five (5) years of experience in internal audit programs with public pension plans. At least three (3) of your clients must be listed as references.

Primary or Lead:

- 1) Must have a minimum of five (5) years of experience developing internal audit programs in the public sector pertaining to investments and pension plans.

SECTION FOUR – PROPOSAL INSTRUCTIONS

4.1 PROPOSAL PREPARATION

The STATE discourages overly lengthy and costly proposals. An Offeror must prepare their proposal using the prescribed proposal format and provide all the requested information; this will enable the proposal to be evaluated fairly and completely. If an Offeror submits more than one proposal, each proposal must be prepared in accordance with these instructions.

Each proposal will include a Technical Proposal and a Cost Proposal prepared in accordance with these instructions. The Technical Proposal and the Cost Proposal must be submitted as separate documents, clearly labeled with the name of the Offeror, and marked “Technical Proposal” and “Cost Proposal.” Costs must not be revealed in the Technical Proposal. Options may be discussed in the technical proposal, but all cost information must be in the Cost Proposal only. DO NOT submit documents that are embedded into proposal documents or that contain links to documents on an external website.

4.2 PROPOSAL SUBMISSION INSTRUCTIONS

UPLOAD RESPONSE THROUGH THE STATE PROCUREMENT ONLINE SYSTEM (SPO ONLINE):

Offeror **must** electronically submit proposals through the State Procurement Office Online system (SPO Online) by the Solicitation Closing deadline.

DO NOT WAIT UNTIL THE “LAST MINUTE” TO SUBMIT A RESPONSE. We recommend uploading your response 24 hours prior to the Solicitation Closing deadline.

Offeror must begin the electronic submission process well in advance of the Solicitation Closing deadline to allow for transmission and resolution of any technical difficulties. Be advised that the STATE is not responsible for an Offeror’s failure to timely submit a proposal due to any technical difficulties. If you experience any technical difficulties, contact the Procurement Officer or the State Procurement Office at infospo@nd.gov or 701-328-2740.

If documents are in the process of being uploaded when the Solicitation Closing deadline occurs, the upload process will stop. The attempted submission will not be uploaded successfully and is ineligible for consideration. The STATE takes no responsibility for electronic submissions that are captured, blocked, filtered, quarantined, or otherwise prevented from uploading by any anti-virus or other security software.

1. This solicitation is posted on SPO Online at: <https://apps.nd.gov/csd/spo/services/bidder/main.htm>
2. Select “Recent Solicitations” and find the solicitation. Solicitations are listed by close date.
3. Use “Upload Response” to upload a maximum of five (5) clearly labeled documents before the Solicitation Closing deadline provided in the RFP Schedule.
4. Offeror must upload their Technical Proposal and Cost Proposal in separate files.
5. The maximum file size allowed is 50 MB per file.
6. There is a 50 character file name limitation for the document being uploaded.
7. There is 75 character limit in the TITLE field within SPO Online.
8. All SPO Online field entries must be alphanumeric. Dashes and underscores are allowed; however, the system DOES NOT accept other special characters such as apostrophe, & symbol, quotation marks, etc.
9. DO NOT submit documents that are embedded (zip files), movies, wmp, encrypted, or mp3 files.
10. Offeror will receive an email confirmation from infospo@nd.gov that the upload response was received including the “File Description” for the uploaded files. Review this email to ensure all files

were successfully uploaded. If Offeror DOES NOT receive an email confirmation, the upload was NOT successful, and the files will need to be uploaded again. If Offeror does not receive an email confirmation after the reattempt, contact the Procurement Officer or the State Procurement Office at infospo@nd.gov or 701-328-2740.

Visit <https://www.omb.nd.gov/sites/www/files/documents/doing-business-with-the-state/procurement/spo-electronic-response-external-job-aid.pdf> for the SPO Electronic Response Job Aid which describes how to submit an electronic response.

4.3 PROPOSAL FORMAT

Prepare the Technical Proposal and Cost Proposal in accordance with these instructions.

Technical Proposal – Format the proposal with the following labeled sections:

- Section 1 – Cover Letter
- Section 2 – RFP Amendments
- Section 3 – Scope of Work Strategy
- Section 4 – Experience and Qualifications
- Section 5 – Contract Provisions
- Section 6 – Open Records and Confidentiality

Cost Proposal – The Cost Proposal must be a separate document. Format the Cost Proposal following the RFP instructions.

4.4 TECHNICAL PROPOSAL

SECTION 1 – COVER LETTER

Proposals shall include a cover letter that includes the following:

1. The name of the Offeror, name of the person to contact regarding the proposal, email address, telephone number, and mailing address.
2. Offerors are instructed to review the “Conflict of Interest” provisions in RFP Section 1 “Instructions.” If the firm, its employees, or subcontractors working on the contract have an apparent or actual conflict of interest, provide a statement disclosing the circumstances of the apparent or actual conflict of interest. Otherwise, provide a statement that your firm, employees, and subcontractors do not have a conflict of interest.
3. The cover letter must be signed by an individual with authority to bind the Offeror. By signing the cover letter, an Offeror certifies that it complies with:
 - a. All the requirements, terms, and conditions as set forth in this RFP.
 - b. The requirement that the Offeror’s proposal accurately describes the goods and services being offered to the STATE, and the proposal will be held firm for the period specified.
 - c. All local, state, and federal laws, rules, code laws, rules, code, regulation, and policies, including those relating to nondiscrimination, accessibility, civil rights, and equal employment.
 - d. The requirement that this proposal was prepared independently without collusion.

SECTION 2 – RFP AMENDMENTS

Provide signed copies of all Solicitation Amendments issued by the STATE that were required to be acknowledged by Offerors.

SECTION 3 –SCOPE OF WORK STRATEGY

1. **Applicable Directives.** The Offeror must identify any state and federal requirements that apply to the contract.
2. **Strategy for Scope of Work Requirements.** The Offeror must provide narrative statements to demonstrate their understanding of the scope of work requirements. Explain the proposed strategy to accomplish the scope of work, meet all requirements, and provide the deliverables described in the scope of work within the STATE's project schedule.
3. **Value-Added Options.** Offerors may include any optional services or goods that are not required by the STATE but are within the scope of work (e.g., an option for a higher level of service, equipment accessories, extended warranty options, etc.). Describe any value-added options being offered.
4. **Location of Work.** The proposal must respond to the STATE's Location of Work instructions within the RFP Scope of Work. Describe where the work will be performed and any proposed travel.
5. **State Furnished Property and Services.** Provide a detailed breakdown of the Offeror's expectations for STATE resources that will be needed for the project, including number of staff, qualifications, roles and responsibilities, and time requirements for the various phases of the project.
6. **Risk Management.** Offerors must describe measures to be taken to ensure the safety of its employees, state employees, the public, and property. Offerors must also identify any pertinent issues and potential problems related to the project and describe how those potential issues and problems could be mitigated.
7. **Project Management Plan.** The proposal must describe how the contractor intends to manage the project to ensure the work is accomplished on time, within budget, and meet quantity and quality standards. Offerors may provide a narrative or organizational chart to illustrate the lines of authority and accountability.
8. **Proposed Schedule and Deliverables.** The proposal must provide a timeline for accomplishing the work, in consideration of the STATE's Contract Schedule within the RFP Scope of Work.

SECTION 4 –EXPERIENCE AND QUALIFICATIONS

Mandatory Requirements. An Offeror must provide information to demonstrate meeting the Offeror Experience and Qualifications Requirement in RFP Section 3, Scope of Work, [Experience and Qualifications](#).

Experience and Qualifications of the Firm

Provide a brief history and describe the organization of the firm. Describe the number of years the Offeror has provided the type of work requested in this RFP. Describe specific experience of their firm in completing similar projects. Provide a description of the project, approximate time frame of the project, and contact information for the customer. Offerors may provide letters of reference from customers.

Experience and Qualifications of the Project Team

Provide a narrative or organizational chart that describes the organization of the proposed project team. Provide information for key project team members, including:

1. Description of anticipated work they will perform and approximate estimated hours;
2. Resume or description of the relevant education, training, experience, skills, and qualifications;
3. Offeror must provide a designated executive level contact that will act as a point of contact for any issues that need escalation or to discuss the needs of the STATE. This point of contact will be required to participate in any requested demonstration or presentation requested during the RFP process. They will discuss how the contract will be supported and how the Offeror and STATE will work together to ensure a successful outcome;
4. If the Offeror has vacant positions, identify the job description and minimum qualifications for staff members to be recruited;
5. Subcontractors. If an Offeror intends to use subcontractors, the Offeror must identify in the proposal the names of the subcontractors and the portions of the work the subcontractors will perform. Provide a statement that the Offeror will ensure that the subcontractor has or will obtain any required licenses and registrations, including registration with the North Dakota Secretary of State; and
6. Joint Venture. If submitting a proposal as a joint venture, provide narrative statements that describe the roles and responsibilities of each party to the joint vendor. If available, submit a copy of the joint venture agreement that identifies the parties involved and their rights and responsibilities.

References

Must provide six (6) total references, three (3) from public investment clients and three (3) from public pension clients, for whom similar work was completed. Offerors must include the name of a contact person, address, **email**, and telephone number. Offerors are responsible for providing accurate reference contact information and are instructed to notify the reference that the STATE may be contacting them. Reference checks may begin within one (1) business day of the Solicitation Closing deadline. Evaluation may be impacted if the STATE is unable to contact the reference or the reference does not provide the requested information in a timely fashion.

SECTION 5 – CONTRACT PROVISIONS

Offeror shall review the RFP Section 6 and the STATE's contract – Attachment C.

The proposal must indicate whether the Offeror accepts the terms and conditions in the STATE's contract.

An Offeror may state that they accept the STATE's contract as written.

An Offeror may state any objections or propose changes or additions to the STATE's contract. Describe the changes to the contract being proposed or provide a red-line of the STATE's contract. Offeror is not to submit their own contract or standard terms and conditions with their proposals. Offeror should address the specific language in the attached contract and submit any proposed changes.

North Dakota procurement statutes, rules, and policies allow some negotiation of the terms and conditions. No changes to the terms and conditions will be permitted without prior written approval from the STATE.

SECTION 6 – OPEN RECORDS AND CONFIDENTIALITY

All proposals and other material submitted become the property of the STATE and may be returned only at the STATE's discretion. The State of North Dakota has broad open records laws. Proposals

received are exempt from open record requirements until an award is made, in accordance with [N.D.C.C. § 54-44.4-10\(2\)](#). After award, proposals are subject to the North Dakota open records laws. Proposals or portions of proposals may be confidential only if specifically stated in law.

Offerors are instructed not to mark their entire proposal as “confidential”.

Offeror must provide one of the following in their proposal:

- Provide a statement indicating that their proposal does not contain any confidential information, OR
- Make a written request to hold confidential any trade secrets and other proprietary data contained in their proposal. Offeror must clearly identify the material considered confidential and explain why the material is confidential. See the North Dakota Office of the Attorney General website for additional information at <https://www.legis.nd.gov/cencode/t44c04.pdf> and <https://attorneygeneral.nd.gov/open-records-meetings>

If the STATE receives a request for public information, the Procurement Officer, in consultation with the Office of the Attorney General, shall determine whether the information is an exception to the North Dakota open records laws, and the information shall be processed accordingly.

4.5 COST PROPOSAL

Cost Proposal Format. Cost proposals must be prepared as a separate document from the technical proposal, clearly labeled, “Cost Proposal”.

Offeror must complete the Cost Proposal Template – Attachment A or prepare a Cost Proposal following the same format.

Value-Added Options. Offeror may include pricing for any value-added options that are described in the Offeror’s proposal as options, but not included in the total cost. Any options must be within the scope of work. (e.g., an option for a higher level of service, equipment accessories, extended warranty options, etc.). Provide details related to initial cost, reoccurring costs, and options. The STATE shall not consider these costs as part of cost evaluation scoring.

All costs must be stated in U.S. currency. Any commodities being imported must be identified, and the price must include any applicable shipping and handling, customs, brokerage agency fees, and duties.

Offeror should describe any discount terms for prompt payment. Discounts for prompt payment will not be considered in evaluating costs.

SECTION FIVE – AWARD AND PROPOSAL EVALUATION

5.1 AWARD

The STATE intends to award a contract to the responsible Offeror whose proposal is determined to be responsive to the requirements of the solicitation and is determined to be the most advantageous in consideration of the RFP evaluation criteria.

5.2 RESPONSIVENESS

All proposals will be evaluated to determine if they are responsive to the requirements of the solicitation. The STATE reserves the right to waive minor informalities in accordance with [N.D.A.C. chapter 4-12-10](#). Minor informalities are insignificant omissions or nonjudgmental mistakes that are matters of form rather than substance, evident from RFP document, with a negligible effect on price, quantity, quality, delivery, or contractual conditions that can be waived or corrected without prejudice to other Offerors. Responsive proposals will be evaluated by the Procurement Officer or evaluation committee using the evaluation criteria stated within the RFP.

5.3 RESPONSIBILITY – SUPPLEMENTARY INVESTIGATION

The STATE reserves the right to contact references, other customers, including state and local government agencies, regarding past experience with the Offeror. Prior experience of the state agency or institution with any prospective Offeror may also be taken into consideration during evaluation.

The STATE may, at any time, make a supplementary investigation as to the responsibility of any Offeror in accordance with [N.D.A.C. § 4-12-11-04](#). This investigation may include, but is not limited to, financial responsibility, capacity to produce, sources of supply, performance record, or other matters related to the Offeror's probable ability to deliver if a contract is awarded to the Offeror. If it is determined that an Offeror appears not to be sufficiently responsible, the proposal will be rejected.

5.4 EVALUATION CRITERIA

Proposals will be evaluated using a 100 point scale. The evaluation committee will award points based on the questions in the Technical Proposal Evaluation Worksheet – Attachment B. The Technical Proposal evaluation score and Cost Proposal evaluation score will be added together to determine the total evaluation score. After the initial evaluation, the evaluation committee may determine which proposals are reasonably susceptible for award and continue the evaluation process with only those Offerors. Offerors whose proposals are not selected for further evaluation may request a debrief from the Procurement Officer after an award notice is issued. The final evaluation score will consider information received by the STATE, including but not limited to, discussions with Offerors, demonstrations, presentations, site visits, reference checks, and best and final offers.

The evaluation criteria and relative weight is as follows:

Technical Proposal Evaluation: 70 Points

- A. Scope of Work Strategy – 45 Points
- B. Experience and Qualifications – 25 Points

Cost Proposal Evaluation: 30 Points

Minimum Technical Score: Technical proposals must receive at least **55 points** of the total points available for the Technical Score to be considered responsive to the RFP requirements.

Preference Laws: Any applicable preference laws will be applied. For more information, refer to the [Guidelines to Preference Laws](#).

5.5 COST PROPOSAL EVALUATION

The STATE will calculate evaluation points awarded to Cost Proposals. Any prompt payment discount terms proposed by the Offeror will not be considered in evaluating cost.

The reciprocal preference law, N.D.C.C. § 44-08-01, was repealed effective August 1, 2023.

The cost amount used for evaluation may be affected by the application of other costs required to implement the proposed solution to determine the total cost of the solution (i.e. cost for ITD to host a STATE hosted solution).

The lowest Cost Proposal will receive the maximum number of points allocated to cost. Cost proposals will be evaluated using the following formula.

$$\frac{\text{Price of Lowest Cost Proposal}}{\text{Price of Proposal Being Rated}} \times \text{Total Points for Cost Available} = \text{Awarded Points}$$

5.6 CLARIFICATIONS OF PROPOSALS – DISCUSSIONS

To determine if a proposal is reasonably susceptible for award, communications by the Procurement Officer or evaluation committee are permitted with an Offeror to clarify uncertainties or eliminate confusion concerning the contents of a proposal and determine responsiveness to the RFP requirements. Discussions will be limited to the specific section of the RFP or proposal indicated by the STATE. Discussions are generally conducted by telephone or internet-based conference.

In conducting discussions, there may be no disclosure of any information derived from proposals submitted by competing Offerors. Clarifications may not result in material or substantive change to the proposals. Evaluation scores may be adjusted based in consideration of information obtained through discussions.

5.7 RIGHT OF REJECTION

The STATE reserves the right to reject any proposals, in whole or in part. Proposals received from suspended or debarred bidders will be rejected. Proposals determined to be nonresponsive to the requirements of the RFP will be rejected. The STATE reserves the right to reject the proposal of an Offeror determined to be not responsible. The STATE reserves the right to refrain from making an award if determined to be in its best interest.

5.8 PRESENTATIONS, DEMONSTRATIONS, AND SITE VISITS

After the initial evaluation, the evaluation committee may determine which proposals are reasonably susceptible for award and continue the evaluation process with only those Offerors. These Offerors will be required to provide a presentation for the evaluation committee or the SIB Audit Committee. Offerors whose proposals are not selected for further evaluation may request a debrief from the Procurement Officer after an award notice is issued.

Location: Internet-based conference

Schedule: Approximately January 17, 2024.

5.9 BEST AND FINAL OFFERS

The STATE is not obligated to request best and final offers; therefore, Offerors should submit their best terms (technical and cost) in response to this RFP.

If the STATE determines there is a need for additional information, substantial clarification or changes to the RFP or proposals, the STATE may request for best and final offers from Offerors that have submitted proposals determined to be reasonably susceptible for award. The best and final offer request will describe the additional information, clarification, or change being requested.

A date and time will be established for receipt of revised proposals. If an Offeror does not submit a best and final offer, the STATE shall consider its original proposal its best and final offer. Best and final

offers will be evaluated using the evaluation criteria stated in the RFP. The STATE may request more than one best and final offer.

5.10 TIE PROPOSALS

In the event that two or more proposals contain identical pricing or receive identical evaluation scores, [N.D.C.C. § 54-44.4-05.1](#) requires preference must be given to a resident North Dakota bidder, seller, vendor, offeror, or contractor as defined in [N.D.C.C. § 44-08-02](#). In the event the tie is not resolved by application of this law, [N.D.A.C. § 4-12-11-05](#) will be applied.

5.11 NEGOTIATIONS

Contract negotiations will be conducted in accordance with [N.D.A.C. § 4-12-12](#). The STATE may enter negotiations with one or more Offeror whose proposals received the highest scores and are reasonably susceptible for award. During negotiations, the STATE and Offeror may agree to alter or otherwise change the terms and conditions and price of the proposed contract. Negotiation, if held, will be within the scope of the RFP and limited to those items that would not have an effect on the ranking of proposals.

Each Offeror will be responsible for all costs it incurs as a result of negotiations, including any travel and per diem expenses. Contract negotiations will be conducted primarily by email, conference calls, or internet-based conference. Any on-site negotiation, if needed, will be held in [Insert City](#), North Dakota.

The STATE may terminate negotiations, reject a proposal as nonresponsive, and continue or commence negotiations with other Offerors reasonably susceptible for award, if the Offeror:

- Fails to provide necessary information for negotiations in a timely manner
- Fails to negotiate in good faith
- Is unable to successfully negotiate contract terms that are acceptable to the STATE
- Indicates that it cannot perform the contract within the budgeted funds

In accordance with [N.D.C.C. § 54-44.4-13.1](#), the STATE and contractor may negotiate payment terms for all commodities and services procured. If a date for payment is not specified in this contract, payment must be made pursuant to section [N.D.A.C § 13-01.1-01](#).

5.12 NOTICE OF INTENT TO AWARD

After proposals have been evaluated and the successful Offeror selected, a notice of intent to award will be promptly issued to all Offerors that submitted proposals. Upon issuance of this notice, the procurement file becomes an open record. The successful Offeror named in the notice of intent to Award is advised not to begin work, purchase materials, or enter into subcontracts until the successful Offeror and the STATE sign the contract.

5.13 CONTRACT APPROVAL

This RFP does not, by itself, obligate the STATE. The STATE's obligation shall commence when the STATE signs the contract. Upon written notice to the contractor, the STATE may set a different starting date for the contract. The STATE shall not be responsible for any work done by the contractor, even work done in good faith, if it occurs prior to the contract start date set by the STATE.

5.14 EVALUATION DEBRIEFING

After the notice of intent to award is issued, Offerors may contact the Procurement Officer to schedule an evaluation debrief. The debrief will provide information about the evaluation process and proposal scores.

SECTION SIX – CONTRACT INFORMATION

6.1 NORTH DAKOTA CONTRACTUAL REQUIREMENTS – BACKGROUND

As a public institution and government entity of the State of North Dakota (the STATE), there are a number of statutes, rules, and policies (Requirements) that may restrict or prevent the STATE from entering into certain types of contracts or certain contractual terms and conditions, some of these Requirements are non-negotiable.

While these Requirements occasionally make the process of negotiating a contract with the STATE more challenging than negotiating with a private industry business, these are not unique to any one agency of the State of North Dakota. These Requirements apply to all public institutions and government entities of the State of North Dakota. Although some are unique to North Dakota, the majority of these Requirements are common to public institutions and government entities throughout the United States.

6.2 STATE CONTRACT TERMS AND CONDITIONS – OFFEROR’S PROPOSED CHANGES

The STATE intends to execute a contract substantially similar to the contract – Attachment C. The Offeror will be required to sign the contract attached to this RFP and must comply with the terms and conditions. The STATE may deem any failure to object to a contract provision as the Offeror’s acceptance of that provision.

North Dakota procurement statutes, rules, and policies allow some negotiation of the terms and conditions. No changes to the terms and conditions will be permitted without prior written approval from the STATE.

Pursuant to [N.D.A.C. § 4-12-11-06](#), proposals subject to conditions imposed by the Offeror may be rejected as nonresponsive, as determined by the STATE. Proposed terms and conditions that conflict with those contained in the attached contract or that diminish the STATE’s rights under the contract shall be considered null and void. The terms and conditions in the attached contract shall prevail in the event a conflict arises between a term or condition in the proposal and a term or condition in the attached contract.

Part or all of this RFP and Offeror’s proposal may be incorporated into the attached contract. The STATE may deem any failure to object to a contract provision as the Offeror’s acceptance of that provision.

6.3 CONTRACT PROVISIONS

A. Contract Type.

The contract type will be as follows:

Firm Fixed Price. The contractor will be required to hold the price firm for the contract period, except as otherwise provided in the contract.

B. Payment Procedures

Compensation and payment terms will be set forth in the contract based upon the successful Offeror’s proposal. The STATE will not make any advanced payments before performance by the contractor under this contract.

- The STATE will make payments based on a negotiated payment schedule. Each billing must consist of an invoice and progress report. No payment will be made until the progress report and the project director has approved the invoice.

C. Inspection & Modification

The contractor is responsible for the completion of all work set out in the contract. All work is subject to inspection, evaluation, and approval by the STATE. The STATE may employ all reasonable means to ensure that the work is progressing and being performed in compliance with the contract.

Should the STATE determine that corrections or modifications are necessary to accomplish its intent, the STATE may direct the contractor to make changes. The contractor will not unreasonably withhold changes.

Substantial failure of the contractor to perform the contract may cause the STATE to terminate the contract. In this event, the STATE may require the contractor to reimburse monies paid (based on the identified portion of unacceptable work received) and may seek associated damages.

D. Contract Changes – Unanticipated Amendments

During the course of the contract entered as a result of this solicitation, the contractor may be required to perform additional work due to a legitimate unforeseen circumstance. That work will be within the general scope of the initial contract. When additional work is required, the STATE shall provide the contractor with a written description of the additional work and request that the contractor submit proposal for accomplishing the scope of work. Contractor will not commence additional work until all parties agree in writing.

E. Purchasing Card

The STATE may make payments under this contract using a state purchasing card. See the contract related to payments using the STATE purchasing card.

6.4 CONTRACTUAL TERMS AND CONDITIONS – NO MATERIAL CHANGES

A. Indemnification and Insurance

[N.D.C.C. § 32-12.2-17](#) requires that the OMB establish guidelines for indemnification and insurance provisions in state contracts. The indemnification and insurance requirements contained in the attached contract are pursuant to those guidelines. The STATE shall not be deemed to have accepted any alteration of these provisions without prior written approval to Offeror from the STATE acting in consultation with the North Dakota Risk Management Division.

B. Indemnification

Indemnification is a contractual clause by which one party to a contract asks the other party to defend it against any claims of third parties who might be injured as a result of something that occurs while the parties are performing their duties and obligations under the contract. Without specific authority to do so, the STATE agencies cannot enter into agreements indemnifying contractors, or any other entity, against third party claims.

Any clause that has the intent of seeking indemnification from the STATE, whether the clause contains the words “indemnity” or “indemnify,” are not clauses to which the STATE may agree.

The STATE will also not agree to clauses to indemnify a contractor “to the extent permitted by law”. This is because the STATE knows that the extent to which the law permits it to indemnify contractors is no extent whatsoever, and as a result would be disingenuous for the STATE to imply in a contract that there might be some set of circumstances under which the STATE would defend the contractor against a third party claim(s). Simply put, the STATE is not going to agree to something it knows it cannot do. In this circumstance an “extent” clause is merely an invitation to litigate the matter in the event a third party claim(s) arises, and the STATE does not enter into agreements that invite litigation. Do not ask the STATE to indemnify you against third party claims because it is a contractual obligation to which the STATE cannot agree.

While the STATE may limit the liability of a contractor in claims between the STATE and the contractor, the STATE does not have authority to limit a contractor's liability for claims brought by a third party. In the event a contract contains a limitation of liability clause, the contract's Indemnification clause and obligation of the contractor cannot be subject to that limitation of liability clause. See 6.4(D) for Limitation of Liability.

C. Insurance

Upon receipt of the notice of intent to award, the successful Offeror must obtain the required insurance coverage and provide the Procurement Officer with proof of coverage prior to contract approval. The coverage must be satisfactory to the STATE, in consultation with the North Dakota Risk Management Division. The successful Offeror's failure to provide evidence of insurance coverage is a material breach and grounds for withdrawal of the award or termination of the contract.

D. Limitation of Liability

The STATE may negotiate Limitation of Liability pursuant to [N.D.C.C. § 32-12.2-15](#) "Contracts limiting liability to the STATE".

Notwithstanding any provision in [N.D.C.C. ch. 32-12.2](#) to the contrary, an agency may agree to limit the liability of a contractor to the STATE if:

1. the agency determines such services or products cannot be effectively obtained without such limitation; and
2. the limitation does not pose any significant risk of loss to the STATE; and
3. the limitation is in the best interests of the STATE.

The agency, in consultation with OMB and the Attorney General's Office, shall prepare written documentation before agreeing to any liability limitation.

An agency's authority to agree to a limitation of liability is limited to contracts for the purchase or lease of, or services related to, software, communication, electronic equipment, and economic forecasting.

1. An agency may limit its ability to recover indirect consequential damages.
2. If the extent of potential direct loss is unknown, an agency may agree to limit direct damages to a reasonably estimated amount commensurate with the foreseeable risk of loss to the STATE. The amount must be equal to twice the total value of the contract unless all parties to the contract agree to an alternative amount. Any agreed upon amount that is less than twice the value of the contract must be approved by the director of OMB. The liquidated damages and retainage provisions for delay, missed deadlines, and other breaches are not subject to a general limitation on direct or indirect damages authorized under [N.D.C.C. § 32-12.2-15](#).
3. A contract under [N.D.C.C. § 32-12.2-15](#) may not limit any loss to the STATE resulting from fraud or other intentional or willful misconduct, breach of confidentiality obligations, or loss resulting from tangible property damage or personal injury.

E. Waivers of Jurisdiction and Venue; Alternative Dispute Resolution

The North Dakota Attorney General is the STATE's attorney for all purposes, including management of litigation and claims against the STATE. The STATE may not usurp the Attorney General's authority by agreeing in advance to control the way litigation may be managed in the event of a dispute. The STATE cannot, without specific authority, agree to the

jurisdiction or the laws of another state or federal courts, nor can it contractually agree to participate in any form of alternative dispute resolution.

Although the STATE cannot contractually agree to such terms, this does not mean that in the event of a dispute, the STATE would not agree to participate in alternative dispute resolution. It simply means that this is a decision that must be made by the Attorney General and is a decision that is made at the time a dispute arises.

F. Confidentiality

All state agencies of North Dakota are subject to North Dakota public records laws. The STATE cannot agree to contractual terms that attempt to prevent it from having to disclose records that are declared public records under applicable statutes. Although some confidentiality and exemptions are allowed under the public records laws, the STATE may not agree to more restrictive obligations concerning its records. Under North Dakota public records laws, contracts are records that are open to the public and may be reviewed at the request of the public.

G. Unliquidated Expenses (i.e., attorney's fees, add-ons, cost increases)

Because the STATE may only obligate those funds that have been appropriated to it by the Legislative Assembly and may only obligate those funds for the purposes for which the funds were appropriated, the STATE may not agree to clauses which may obligate it to pay for claims that might exceed its current funding appropriation. Certainly, this is one of numerous reasons why the STATE cannot indemnify a contractor against third party claims, but it may also be said for clauses that purport to obligate the STATE to pay a contractor's attorneys' fees, unknown cost increases during the life of the contract, add-ons that were not contemplated or priced in the contract.

6.5 SCOPE OF WORK

The Scope of Work agreed upon by the parties will be incorporated into the attached contract.

6.6 CONTRACT TERM

The contract term will be set forth in the contract, including any options for extension, renewal, and renegotiation.

6.7 RIGHT TO INSPECT PLACE OF BUSINESS

At reasonable times, the STATE may inspect those areas of the contractor's place of business that are related to the performance of a contract. If the STATE performs an inspection, the contractor must provide reasonable assistance.

ATTACHMENT A
COST PROPOSAL TEMPLATE

Total Fixed Fee***:

Internal Audit Maturity Development \$ _____

Hourly Fees:

Consulting Services, as requested \$ _____/hour

Value Added Options:

***For purposes of calculating cost points, only the Total Fixed Fee will be used.

ATTACHMENT B

TECHNICAL PROPOSAL EVALUATION WORKSHEET

Proposals that are determined to be responsive to the requirements of the RFP will be evaluated by the Evaluation Committee using the evaluation criteria stated in the RFP. For assistance with RFP evaluations, contact the State Procurement Office at infospo@nd.gov or 701-328-2740.

- If a group evaluation is conducted, the Evaluation Committee will produce one worksheet that summarizes the comments and scores. If individual scores are being compiled, each member of the Evaluation Committee will prepare an evaluation worksheet with their comments and scores.
- Evaluation Committee members must read the Request for Proposal and have a clear understanding of the requirements and evaluation criteria before attempting to evaluate proposals.
- Evaluators should read all proposals twice. First, read all proposals for a general understanding without scoring. Next, read proposals with the intent to complete the evaluation worksheet which includes taking notes and documenting any questions/clarification needed.
- Each evaluation criterion is assigned a specific number of points. The questions under each evaluation criterion help Evaluators measure the quality of the Offeror's response. Do not assign points to individual questions, instead, award a total score for each evaluation criterion.
- Evaluators will assign an initial score for each evaluation criterion and provide comments which explain their scores.
- Evaluation documents become an open record upon award.

RATING SCALE FOR TECHNICAL PROPOSAL SCORING

The rating scale provided is intended to help Evaluators perform evaluations. Evaluators are exercising independent judgement so variation in scoring is normal. However, the Procurement Officer may question scoring that appears to be unsupported. Evaluators may assign any value for a given evaluation area from 0 to the maximum number of points allowed per evaluation criterion. A zero value typically constitutes no response or an inability of the Offeror to meet the criteria. In contrast, the maximum value should constitute a high standard of meeting the criteria. For example: "Experience and Qualifications" is an evaluation area weighted at 25% of the total possible points on a 100 Point Scale, so any value between 0 and 25 points can be awarded. An example of the rating scale is below:

Experience and Qualifications Rating Scale (25 Point Maximum)	
Point Value	Explanation
0-5	Poor. Not addressed or response of no value
6-10	Fair. Limited applicability
11-15	Good. Some applicability
16-20	Very Good. Substantial applicability
21-25	Excellent. Total applicability

COST PROPOSAL

Cost proposals are normally scored by the Procurement Officer or selected evaluators, and cost proposals are given to the Evaluation Committee after technical proposals have been evaluated. Prompt payment discounts are not considered in evaluating cost.

ADJUSTMENT OF INITIAL EVALUATION SCORES

After the initial scoring, the Evaluation Committee should meet to discuss proposals and identify areas where clarification or more information is needed. Evaluation scores may be adjusted as a result of discussions with offerors, clarifications, demonstrations, presentations, reference check results, Best and Final Offers, and further due diligence within the evaluation process.

TECHNICAL PROPOSAL EVALUATION WORKSHEET

Offeror Name: _____

RFP Title & Number: Internal Audit Maturity Development, 110.7-23-102

Evaluator Name: _____

Evaluator Certification. I have reviewed the Request for Proposal Evaluators Guide, and I certify that neither I nor my immediate family members have a conflict of interest with regard to this offeror, in accordance with [N.D.A.C. § 4-12-04-04.](#)

Evaluator Signature _____ **Date** _____

THE TOTAL NUMBER OF POINTS USED TO SCORE THIS PROPOSAL IS 100

SCOPE OF WORK STRATEGY RATING SCALE (45 Point Maximum)	
Point Value	Explanation
0 – 9	None. Not addressed or response of no value
10 – 18	Fair. Limited applicability
19 – 27	Good. Some applicability
28 – 36	Very Good. Substantial applicability
37 – 45	Excellent. Total applicability

IMPORTANT. Proposals will be evaluated against the questions set out below. Do not assign points to individual questions, instead, award a total score for each evaluation criterion. Evaluators must provide comments to support scoring.

How well has the Offeror followed the proposal preparation instructions? Does the proposal contain all the requested information?

EVALUATOR NOTES

Has the Offeror identified any additional directives that apply to the contract?

EVALUATOR NOTES

How well has the Offeror described their strategy for accomplishing the scope of work requirements? What are the strengths of the proposed strategy?

EVALUATOR NOTES

Are there aspects of the proposed Scope of Work strategy of concern or that requires clarification or further information?

EVALUATOR NOTES

How well does the proposed timeline demonstrate the offeror's ability to meet the contract schedule and deliverables?

EVALUATOR NOTES

How well does the proposal address where the work will be performed and any travel?

EVALUATOR NOTES

How well has offeror described any expectations for State resources?

EVALUATOR NOTES

How well has the offeror addressed risk management? Did they identify any potential risks, issues or problems?

EVALUATOR NOTES

Has the offeror described their project management to accomplish the work on time, within budget, and meet quantity and quality standards?

EVALUATOR NOTES

INITIAL EVALUATION SCORE FOR SCOPE OF WORK STRATEGY: _____

Additional/overall comments related to the offeror’s proposed strategy for accomplishing the work.

EVALUATOR NOTES

EXPERIENCE AND QUALIFICATIONS RATING SCALE (25 Point Maximum)	
Point Value	Explanation
0-5	None. Not addressed or response of no value
6-10	Fair. Limited applicability
11-15	Good. Some applicability
16-20	Very Good. Substantial applicability
21-25	Excellent. Total applicability

IMPORTANT. Proposals will be evaluated against the questions set out below. Do not assign points to individual questions, instead, award a total score for each evaluation criterion. Comments to support scoring are required, and will be helpful when performing offeror evaluation debriefs after award.

MINIMUM EXPERIENCE OR QUALIFICATIONS

If the RFP required a minimum amount of experience or qualifications, has the offeror provided information to demonstrate meeting the requirements? Does the offeror exceed the minimum experience or qualifications?

EVALUATOR NOTES

EXPERIENCE AND QUALIFICATIONS OF THE FIRM

Has the offeror provided historical information to demonstrate the firm is well established in this field?

EVALUATOR NOTES

How extensive is the firm’s experience in this type of work? How well does the information about similar projects demonstrate the firm’s experience work related to this RFP?

EVALUATOR NOTES

If the offeror provided letters of reference or the Evaluation Committee contacted the customer contacts, what information did the offeror's customers provide related to the offeror's past performance?

EVALUATOR NOTES

EXPERIENCE AND QUALIFICATIONS OF THE PROJECT TEAM

Has the offeror provided information about the organization of the project team and proposed work project team members will perform, and estimated hours? Does the proposed project team and work breakdown seem appropriate to accomplish the requirements of the RFP?

EVALUATOR NOTES

Are resumes complete and do they demonstrate education and experience that would be desirable for individuals engaged in the work the RFP requires?

EVALUATOR NOTES

How extensive is the experience of the project team members on similar projects?

EVALUATOR NOTES

If a subcontractor will perform work on the project or joint venture is proposed, has the offeror provided the requested information? How extensive is the experience and qualifications of the subcontractor or other party of the joint venture?

EVALUATOR NOTES

REFERENCE CHECK RESULTS

If references were required, did the references provide information to verify the satisfactory performance of the vendor?

EVALUATOR NOTES

Did references identify any areas of concern?

EVALUATOR NOTES

Did references identify any particular strengths of the vendor?

EVALUATOR NOTES

INITIAL EVALUATION SCORE FOR EXPERIENCE AND QUALIFICATIONS: _____

Additional/overall comments related to the offeror's experience and qualifications.

EVALUATOR NOTES

ATTACHMENT C

OFFEROR INSTRUCTIONS

Offeror shall review the STATE's Contract.

The proposal must include indicate whether or not the offeror accepts the terms and conditions in the STATE's Contract.

An offeror may state that they accept the STATE's Contract as written.

An offeror may state any objections or propose changes or additions to the STATE's Contract. Describe the changes to the Contract being proposed or provide a red-line of the STATE's Contract. Offerors are not to submit their own contract or standard terms and conditions with their proposals. Offeror should address the specific language in the attached contract and submit any proposed changes.

North Dakota procurement statutes, rules, and policies allow some negotiation of the terms and conditions. No changes to the terms and conditions will be permitted without prior written approval from the STATE.

CONTRACT

1. PARTIES

The parties to this contract (Contract) are the State of North Dakota, acting through its Retirement and Investment Office (STATE), and *Name of Business a type of business (e.g. Delaware corporation or privately held company)* having its principal place of business at *principal business address* (CONTRACTOR);

2. SCOPE OF WORK

CONTRACTOR, in exchange for the compensation paid by STATE under this Contract, shall provide the following:

A. Internal Audit Development:

This will be a co-sourcing relationship to assist the internal audit division in the following:

- Conducting and documenting a risk assessment over the investment division and fiscal division of RIO
- Developing a risk-based audit plan.
- The development an Internal Audit Manual consistent with 2024 Institute of Internal Auditors (IIA) standards which includes:
 - Audit Planning
 - Risk Assessment
 - Audit Execution and Oversight
 - Reporting and Communication
 - Follow Up Activities
 - Quality Assurance
 - Consulting and Advisory Engagement
- The development of standard documentation/work paper templates to ensure the identification of sufficient, reliable, relevant, and useful information is consistently applied during audit execution. Including but not limited to:
 - Source of the evidence and date obtained.
 - Objective of the procedure.
 - Procedures performed.

- Sampling methodology, as applicable
- Results.
- Conclusions.
- The development consulting engagement procedures and incorporate into the audit manual in alignment with 2024 IIA standards. Procedures include:
 - Methodology to accept consulting engagements and include in the audit plan, as well as consideration of risks to engagement objectives.
 - Documented understanding with management on objectives, scope, and other engagement details
 - Development of the engagement work plan
 - Tracking system for consulting engagement results to tie into risk management practices and internal audit planning.
- The development with all necessary templates to ensure compliance with the newly developed Internal Audit Manual and procedures.
- Review Audit Committee Charter and Internal Audit Charter for compliance with 2024 IIA standards and recommend any necessary changes for compliance.
- Provide RIO staff with progress reports.

B. Consulting Services:

The consultant will be required to serve on an ongoing basis in an advisory and review capacity to RIO staff and SIB Audit Committee, as required based on an hourly fee for services rate. Prior to initiating any efforts under this area, authorization must be given by the Executive Director of RIO. Any work efforts the consultant completes or initiates that are not authorized will not be reimbursed. This consulting will primarily consist of any other policies, procedures, or reviews the Internal Audit Division may need to get into compliance with the 2024 IIA standards.

3. COMPENSATION-PAYMENTS

a. Contractual Amount

STATE shall pay for the accepted services provided by CONTRACTOR under this Contract an amount not to exceed **[Amount]** (Contractual Amount).

The Contractual Amount is firm for the duration of this Contract and constitutes the entire compensation due CONTRACTOR for performance of its obligations under this Contract regardless of the difficulty, materials or equipment required, including fees, licenses, overhead, profit and all other direct and indirect costs incurred by CONTRACTOR, except as provided by an amendment to this Contract.

b. Payment

- 1) Payment made in accordance with this Compensation section shall constitute payment in full for the services and work performed and the deliverables and work(s) provided under this Contract and CONTRACTOR shall not receive any additional compensation hereunder.
- 2) STATE shall make payment under this Contract within forty-five (45) calendar days after receipt of a correct invoice.
- 3) Payment of an invoice by STATE will not prejudice STATE's right to object to or question that or any other invoice or matter in relation thereto. CONTRACTOR's invoice will be subject to reduction for amounts included in any invoice or payment made which are determined by STATE, on the basis of audits conducted in accordance with the terms of this

Contract, not to constitute allowable costs. At STATE's sole discretion, all payments shall be subject to reduction for amounts equal to prior overpayments to CONTRACTOR.

- 4) For any amounts that are or will become due and payable to STATE by CONTRACTOR, STATE reserves the right to deduct the amount owed from payments that are or will become due and payable to CONTRACTOR under this Contract.

c. Travel

CONTRACTOR acknowledges travel costs are covered by the Contractual Amount and shall not invoice STATE for travel costs.

d. Prepayment

STATE will not make any advance payments before performance or delivery by CONTRACTOR under this Contract.

e. Payment of Taxes by STATE

STATE is not responsible for and will not pay local, state, or federal taxes. STATE sales tax exemption number is E 2001. STATE will furnish certificates of exemption upon request by the CONTRACTOR.

f. Taxpayer ID

CONTRACTOR'S federal employer ID number is: *[Insert FEIN]*.

g. Purchasing Card

STATE may make payment using a government credit card. CONTRACTOR will accept a government credit card without passing the processing fees for the government credit card back to STATE.

4. TERM OF CONTRACT

This Contract term (Term or Initial Term) begins on its Effective Date and ends on December 31, 2024.

a. No Automatic Renewal

This Contract will not automatically renew.

b. Extension Option

STATE reserves the right to extend this Contract for an additional period, not to exceed six (6) months, beyond the current termination date of this Contract.

5. TERMINATION

a. Termination by Mutual Agreement

This Contract may be terminated by mutual consent of both Parties executed in writing.

b. Early Termination in the Public Interest

STATE is entering this Contract for the purpose of carrying out the public policy of the State of North Dakota, as determined by its Governor, Legislative Assembly, Agencies and

Courts. If this Contract ceases to further the public policy of the State of North Dakota, STATE, in its sole discretion, by written notice to CONTRACTOR, may terminate this Contract in whole or in part.

c. Termination for Lack of Funding or Authority

STATE by written notice to CONTRACTOR, may terminate the whole or any part of this Contract under any of the following conditions:

- 1) If funding from federal, state, or other sources is not obtained or continued at levels sufficient to allow for purchase of the services or goods in the indicated quantities or term.
- 2) If federal or state laws or rules are modified or interpreted in a way that the services or goods are no longer allowable or appropriate for purchase under this Contract or are no longer eligible for the funding proposed for payments authorized by this Contract.
- 3) If any license, permit, or certificate required by law or rule, or by the terms of this Contract, is for any reason denied, revoked, suspended, or not renewed.

Termination of this Contract under this subsection is without prejudice to any obligations or liabilities of either Party already accrued prior to termination.

d. Termination for Cause

STATE may terminate this Contract effective upon delivery of written notice to CONTRACTOR, or any later date stated in the notice:

- 1) If CONTRACTOR fails to provide services or goods required by this Contract within the time specified or any extension agreed to in writing by STATE; or
- 2) If CONTRACTOR fails to perform any of the other provisions of this Contract, or so fails to pursue the work as to endanger performance of this Contract in accordance with its terms.

The rights and remedies of STATE provided in this subsection are not exclusive and are in addition to any other rights and remedies provided by law or under this Contract.

6. FORCE MAJEURE

Neither Party shall be held responsible for delay or default caused by fire, riot, terrorism, pandemic (excluding COVID-19), acts of God, or war if the event was not foreseeable through the exercise of reasonable diligence by the affected Party, the event is beyond the Party's reasonable control, and the affected Party gives notice to the other Party promptly upon occurrence of the event causing the delay or default or that is reasonably expected to cause a delay or default. If CONTRACTOR is the affected Party and does not resume performance within fifteen (15) days or another period agreed between the Parties, then STATE may seek all available remedies, up to and including termination of this Contract pursuant to its Termination Section, and STATE shall be entitled to a pro-rata refund of any amounts paid for which the full value has not been realized, including amounts paid toward software subscriptions, maintenance, or licenses.

7. INDEMNIFICATION

The State and Contractor each agrees to assume its own liability for any and all claims of any nature including all costs, expenses and attorneys' fees which may in any manner result from or arise out of this agreement.

8. INSURANCE

Contractor shall secure and keep in force during the term of this agreement, from insurance companies, government self-insurance pools or government self-retention funds, authorized to do business in North Dakota, the following insurance coverages:

- 1) Commercial general liability, including premises or operations, contractual, and products or completed operations coverages (if applicable), with minimum liability limits of \$2,000,000 per occurrence.
- 2) Professional errors and omissions with minimum limits of \$1,000,000 per claim and in the aggregate, Contractor shall continuously maintain such coverage during the contact period and for three years thereafter. In the event of a change or cancellation of coverage, Contractor shall purchase an extended reporting period to meet the time periods required in this section.
- 3) Workers compensation coverage meeting all statutory requirements.

The insurance coverages listed above must meet the following additional requirements:

- 1) This insurance may be in policy or policies of insurance, primary and excess, including the so-called umbrella or catastrophe form and must be placed with insurers rated "A-" or better by A.M. Best Company, Inc., provided any excess policy follows form for coverage. Less than an "A-" rating must be approved by the State. The policies shall be in form and terms approved by the State.
- 2) The Contractor shall furnish a certificate of insurance to the undersigned State representative prior to commencement of this agreement.
- 3) Failure to provide insurance as required in this agreement is a material breach of contract entitling State to terminate this agreement immediately.
- 4) Contractor shall provide at least 30-day notice of any cancellation or material change to the policies or endorsements. An updated, current certificate of insurance shall be provided in the event of any change to a policy.

9. WORKS FOR HIRE

CONTRACTOR acknowledges that all work(s) under this Contract is "work(s) for hire" within the meaning of the United States Copyright Act (Title 17 United States Code) and hereby assigns to STATE all rights and interests CONTRACTOR may have in the work(s) it prepares under this Contract, including any right to derivative use of the work(s). All software and related materials developed by CONTRACTOR in performance of this Contract for STATE shall be the sole property of STATE, and CONTRACTOR hereby assigns and transfers all its right, title, and interest therein to STATE. CONTRACTOR shall execute all necessary documents to enable STATE to protect STATE's intellectual property rights under this section.

10. WORK PRODUCT

All work product, equipment or materials created for STATE or purchased by STATE under this Contract belong to STATE and must be immediately delivered to STATE at STATE's request upon termination of this Contract.

11. NOTICE

All notices or other communications required under this Contract must be given by email, registered or certified mail and are complete on the date postmarked when addressed to the Parties at the following addresses:

STATE	CONTRACTOR
<i>Sara Seiler</i>	<i>Name</i>
<i>Supervisor of Internal Audit</i>	<i>Title</i>
<i>PO Box 7100</i>	<i>Address</i>
<i>Bismarck, ND 58507</i>	<i>City, State, Zip</i>
<i>sseiler@nd.gov</i>	<i>Email</i>

Notice provided under this provision does not meet the notice requirements for monetary claims against the State found at N.D.C.C. § 32-12.2-04.

12. CONFIDENTIALITY

CONTRACTOR shall not use or disclose any information it receives from STATE under this Contract that STATE has previously identified as confidential or exempt from mandatory public disclosure except as necessary to carry out the purposes of this Contract or as authorized in advance by STATE. STATE shall not disclose any information it receives from CONTRACTOR that CONTRACTOR has previously identified as confidential and that STATE determines in its sole discretion is protected from mandatory public disclosure under a specific exception to the North Dakota public records law, [N.D.C.C. CH. 44-04](#). The duty of STATE and CONTRACTOR to maintain confidentiality of information under this section continues beyond the Term of this Contract.

13. COMPLIANCE WITH PUBLIC RECORDS LAWS

Under the North Dakota public records law and subject to the Confidentiality clause of this Contract, certain records may be open to the public upon request.

Public records may include: (a) records STATE receives from CONTRACTOR under this Contract, (b) records obtained by either Party under this Contract, and (c) records generated by either Party under this Contract.

CONTRACTOR agrees to contact STATE immediately upon receiving a request for information under the public records law and to comply with STATE's instructions on how to respond to such request.

14. INDEPENDENT ENTITY

CONTRACTOR is an independent entity under this Contract and is not a STATE employee for any purpose, including the application of the Social Security Act, the Fair Labor Standards Act, the Federal Insurance Contribution Act, the North Dakota Unemployment Compensation Law and the North Dakota Workforce Safety and Insurance Act. CONTRACTOR retains sole and absolute discretion in the manner and means of carrying out CONTRACTOR's activities and responsibilities under this Contract, except to the extent specified in this Contract.

15. ASSIGNMENT AND SUBCONTRACTS

CONTRACTOR may not assign or otherwise transfer or delegate any right or duty without STATE's express written consent, provided, however, that CONTRACTOR may assign its rights and obligations hereunder in the event of a change of control or sale of all or substantially all of its assets related to this Contract, whether by merger, reorganization, operation of law, or otherwise. Should Assignee be a business or entity with whom STATE is prohibited from conducting business, STATE shall have the right to terminate in accordance with the Termination for Cause section of this Contract.

CONTRACTOR may enter subcontracts provided that any subcontract acknowledges the binding nature of this Contract and incorporates this Contract, including any attachments. CONTRACTOR is solely responsible for the performance of any subcontractor with whom CONTRACTOR contracts. CONTRACTOR does not have authority to contract for or incur obligations on behalf of STATE.

16. SPOILIATION – PRESERVATION OF EVIDENCE

CONTRACTOR shall promptly notify STATE of all potential claims that arise or result from this Contract. CONTRACTOR shall also take all reasonable steps to preserve all physical evidence and information that may be relevant to the circumstances surrounding a potential claim, while maintaining public safety, and grants to STATE the opportunity to review and inspect such evidence, including the scene of an accident.

17. MERGER AND MODIFICATION, CONFLICT IN DOCUMENTS

This Contract, including the following documents, constitutes the entire agreement between the Parties. There are no understandings, agreements, or representations, oral or written, not specified within this Contract. This Contract may not be modified, supplemented or amended, in any manner, except by written agreement signed by both Parties.

Notwithstanding anything herein to the contrary, in the event of any inconsistency or conflict among the documents making up this Contract, the documents must control in this order of precedence:

- a. The terms of this Contract as may be amended;
- b. STATE's Solicitation Amendment #1 to Request for Proposal ("RFP") number 110.7-23-102 dated _____;
- c. STATE's Request for Proposal ("RFP") number 110.7-23-102, dated November 20, 2023;
- d. CONTRACTOR's proposal dated _____ in response to RFP number 110.7-23-102.
- e. All terms and conditions contained in any automated end-user agreements (e.g., click-throughs, shrink wrap, or browse wrap) are specifically excluded and null and void, and shall not alter the terms of this Contract.

18. SEVERABILITY

If any term of this Contract is declared to be illegal or unenforceable by a court having competent jurisdiction, the validity of the remaining terms is unaffected and, if possible, the rights and obligations of the Parties are to be construed and enforced as if this Contract did not contain that term.

19. APPLICABLE LAW AND VENUE

This Contract is governed by and construed in accordance with the laws of the State of North Dakota. Any action to enforce this Contract must be adjudicated exclusively in the state District Court of Burleigh County, North Dakota. Each Party consents to the exclusive jurisdiction of such court and waives any claim of lack of jurisdiction or *forum non conveniens*.

20. ALTERNATIVE DISPUTE RESOLUTION – JURY TRIAL

By entering this Contract, STATE does not agree to binding arbitration, mediation, or any other form of mandatory Alternative Dispute Resolution. The Parties may enforce the rights and remedies in judicial proceedings. STATE does not waive any right to a jury trial.

21. ATTORNEY FEES

In the event a lawsuit is instituted by STATE to obtain performance due under this Contract, and STATE is the prevailing Party, CONTRACTOR shall, except when prohibited by N.D.C.C. § 28 26 04, pay STATE's reasonable attorney fees and costs in connection with the lawsuit.

22. NONDISCRIMINATION AND COMPLIANCE WITH LAWS

CONTRACTOR agrees to comply with all applicable federal and state laws, rules, and policies, including those relating to nondiscrimination, accessibility and civil rights. (See N.D.C.C. Title 34 – Labor and Employment, specifically N.D.C.C. ch. 34-06.1 Equal Pay for Men and Women.)

CONTRACTOR agrees to timely file all required reports, make required payroll deductions, and timely pay all taxes and premiums owed, including sales and use taxes, unemployment compensation and workers' compensation premiums.

CONTRACTOR shall have and keep current all licenses and permits required by law during the Term of this Contract all licenses and permits required by law.

CONTRACTOR is prohibited from boycotting Israel for the duration of this Contract. (See N.D.C.C § 54-44.4-15.) CONTRACTOR represents that it does not and will not engage in a boycotting Israel during the term of this Contract. If STATE receives evidence that CONTRACTOR boycotts Israel, STATE shall determine whether the company boycotts Israel. The foregoing does not apply to contracts with a total value of less than \$100,000 or if CONTRACTOR has fewer than ten full-time employees.

CONTRACTOR's failure to comply with this section may be deemed a material breach by CONTRACTOR entitling STATE to terminate in accordance with the Termination for Cause section of this Contract.

23. STATE AUDIT

Pursuant to N.D.C.C. § 54-10-19, all records, regardless of physical form, and the accounting practices and procedures of CONTRACTOR relevant to this Contract are subject to examination by the North Dakota State Auditor, the Auditor’s designee, or Federal auditors, if required. CONTRACTOR shall maintain these records for at least three (3) years following completion of this Contract and be able to provide them upon reasonable notice. STATE, State Auditor, or Auditor’s designee shall provide reasonable notice to CONTRACTOR prior to conducting examination.

24. COUNTERPARTS

This Contract may be executed in multiple, identical counterparts, each of which is be deemed an original, and all of which taken together shall constitute one and the same contract.

25. EFFECTIVENESS OF CONTRACT

This Contract is not effective until fully executed by both Parties. If no start date is specified in the Term of Contract, the most recent date of the signatures of the Parties shall be deemed the Effective Date.

CONTRACTOR	STATE OF NORTH DAKOTA
<insert business>	Acting through its Retirement & Investment Office
BY: <Signature>	BY: <Signature>
<Printed Name>	Jan Murtha
<Title>	Executive Director
Date:	Date:

**CHARTER OF THE
AUDIT COMMITTEE OF THE
NORTH DAKOTA STATE INVESTMENT BOARD**

PURPOSE

The Audit Committee (the Committee) is a standing committee of the North Dakota State Investment Board (SIB) created to fulfill its fiduciary oversight responsibilities of the North Dakota Retirement and Investment Office (RIO) and to serve as a communications link among the SIB, the RIO's management and Internal Audit staff, independent auditors, and others.

The Committee will assist with the integrity of the RIO's financial reporting process and system of internal controls, the RIO's compliance with legal and regulatory requirements, the performance of the RIO's Internal Audit function and independent auditors, and the RIO's management of risks in the Committee's areas of responsibility. Internal Audit will assist RIO in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

AUTHORITY

The Committee is authorized to provide oversight to the Internal Audit function and the independent audit for the RIO. These activities provide assurance that RIO's financial condition and results of operations are accomplished in accordance with the RIO's policies and procedures and legal and regulatory requirements. The Committee may investigate any activity of the RIO and may retain persons as necessary from within or outside the RIO having special competence to assist the Committee in the accomplishment of its responsibilities.

The RIO's Supervisor of Internal Audit will be the staff member reporting administratively to the Executive Director/~~Chief Investment Officer~~ and functionally to the Committee.

The Executive Director will supervise the administrative activities of the Internal Audit function and independent audit activities such as securing contracts, paying fees, maintaining official reports, and other appropriate activities.

COMPOSITION

The Committee will consist of five members, selected by and approved by the SIB. Three members of the Committee will represent the three groups on the SIB: ~~Legacy & Budget Stabilization Fund Advisory Board, a pension representative, member-at-large Teachers' Fund for Retirement (TFFR) Board, Public Employees Retirement System (PERS) Board, and elected and appointed officials,~~ and two members selected from outside of the SIB and the RIO. The SIB should select committee members who are both independent and financially literate.

Membership on the Committee will be for one year or termination of term on the SIB. Vacancies will be filled by the SIB at the first scheduled meeting following the vacancy. There will be no limit to the number of terms served on the ~~Committee~~Committee.

The Committee will elect a Chair, and a Vice Chair. A liaison will be appointed by the Chair. The Chair will preside at all meetings of the Committee. In the absence of the Chair, the Vice Chair will perform the duties of the Chair. The liaison will report annually to the SIB on the results of the independent audit and at least four times a year to the SIB and TFFR board on the activities of the Committee and other pertinent information.

The Committee may form, and delegate authority to, subcommittees when it deems appropriate.

MEETINGS

The Committee will meet generally four times a year, with authority to convene additional meetings, as circumstances require or to adequately fulfill all the obligations and duties as outlined in this charter.

Meeting agendas will be prepared by the Supervisor of Internal Audit and approved by the Committee Chair, unless otherwise directed by the Committee and will be provided to the Committee members along with briefing materials before the scheduled committee meeting.

Committee members are expected to attend each meeting, in person or via tele- or video-conference. The Supervisor of Internal Audit, a representative of RIO's management team and others necessary to provide information and to conduct business will attend meetings. The Committee may invite staff of the RIO, auditors or others to attend meetings, as necessary. Meetings will be conducted in accordance with NDCC 44-04-17.1. The Committee may hold executive sessions as allowed under state law.

The Committee will act only on the affirmative vote of three of the committee members at a meeting. To conduct business, a quorum will be three members of the Committee. Should a quorum not be present before a scheduled meeting or during a meeting, the Chair will announce the absence of a quorum and the members will disburse. Meeting minutes will be prepared by the RIO, or as otherwise directed by the Committee. Approved meeting minutes of the Committee will be submitted to the SIB.

RESPONSIBILITIES

The RIO's management is responsible for financial and other reporting, internal controls, and compliance with laws, regulations, and ethics. The Committee has the responsibility to provide oversight in the areas of:

- the reliability and integrity of financial and operating information;
- compliance with policies, plans, procedures, pertinent laws and regulations;
- compliance with the Code of Conduct applicable to the SIB, TFFR Board, and RIO employees;
- safeguarding of assets;
- economical and efficient use of resources; and
- effectiveness of achieving desired results from operations.

To this end, the Committee will:

Independent Audit

- Review the independent auditors' proposed audit scope and approach, including coordination of audit effort with RIO's Internal Audit staff and any developments in accounting principles and auditing standards that may affect either the financial statements or the audit.
- Inquire as to any proposed changes in accounting or financial reporting procedures and of any unusual events that could impact the financial statements.
- Review the results of the financial statements report with the independent auditors and the RIO's management, prior to the release of the financial statements report to the SIB and other officials. This review will include the following, as applicable:
 - Any major problems encountered by the independent auditors and the resolution thereof;
 - The effect on the audit of any developments;
 - Any unresolved differences between the independent auditors and the RIO's management;
 - Any other significant comments or recommendations of the independent auditors or the RIO's management;
 - The adequacy of the RIO's internal accounting controls and accounting policies, procedures, and practices; and
 - Understand the scope of independent auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with the RIO's management responses.
- Consider the effectiveness of the RIO's internal control system, including information technology security and control.
- Consider whether the financial statements are complete, consistent with information known to committee members, and reflect appropriate accounting principles. This will include the following, as applicable:
 - The accuracy and completeness of the information in other sections of the annual report and related regulatory filings;
 - The significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements; and
 - All matters required to be communicated to the Committee under generally accepted auditing standards with the RIO's management and the independent auditors.
- Review non-audit services, if any, performed for the RIO by the independent auditors.

Audit Services

- Consider the effectiveness of the Internal Audit function, within The Institute of Internal Auditors' *International Professional Practices Framework for Internal Auditing* consisting of the *Definition of Internal Auditing, Code of Ethics and the Standards*.

- Review with the Executive Director and the Supervisor of Internal Audit the audit charter, activities, staffing, and organizational structure of Internal Audit.
- Review and approve the annual risk-based audit work plan and all major changes to the plan.
- Bring to attention of the Board any internal audit issues the Committee determines significant and appropriate for Board consideration.
- Participate with the Executive Director in the appointment and annual evaluation of the Supervisor of Internal Audit. Work with the Executive Director on any changes in staffing, including the addition, termination, or replacement of auditors, and the approval of salary increases and/or promotions other than those authorized by the legislature.

Risk Management

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

Compliance

- Review staff compliance with federal and state laws and North Dakota administrative code as applicable to RIO, the SIB and TFFR Board programs, and the process for communicating the code of conduct to the RIO's staff, and for monitoring compliance through the receipt of the audit results.
- Review the process for communicating and monitoring compliance with the code of ethics, code of conduct, and fraud policies.
- Review the findings of any examinations by regulatory agencies, any auditor observations related to compliance, and the responsiveness and timeliness of management's actions to address the findings/recommendations.
- Obtain updates from the RIO's management and legal counsel regarding compliance matters, as deemed necessary.

Reporting Responsibilities

- Report to the SIB about the Committee's activities, issues, and related recommendations.

Provide a written report annually to the SIB, describing the Committee's composition, responsibilities and how they were discharged, and any other information required.

Other Responsibilities

- Make recommendations to the North Dakota State Auditor's Office, when appropriate, as it relates to selection, evaluation, and termination of independent auditors.
- Obtain the information and training needed to enhance the committee members' understanding of the role of Internal Audit and the independent auditor, the risk management process, internal controls, and a certain level of familiarity in financial reporting standards and processes so the Committee may adequately oversee.
- Serve as an open avenue of communication among the SIB, the RIO's management and Internal Audit, the independent auditors, and others.
- Serve as an appropriate confidential body for individuals to provide information on potentially fraudulent financial reporting or breaches of internal control.
- Inquire of management and Internal Audit regarding the procedures in place for the prevention of illegal payments, conflicts of interest, or other questionable practices.
- Perform other activities related to this charter as requested by the SIB.
- Institute and oversee special investigations as needed.
- Review any other reports the RIO issues that relates to the Committee's responsibilities.
- Review and assess the adequacy of the Committee charter annually, requesting the SIB approval for proposed changes.
- Confirm annually the review of all responsibilities outlined in this charter.

DATE OF CREATION OF COMMITTEE AMENDMENTS: December 14, 1993

DATE AUDIT COMMITTEE CHARTER ADOPTED AND APPROVED: June 24, 1994

REVISED: November 22, 1996, February 13, 1997, November 6, 2001, May 19, 2006, May 18, 2007, June 26, 2009, May 19, 2016, January 25, 2019.

**INTERNAL AUDIT CHARTER
NORTH DAKOTA STATE INVESTMENT BOARD**

I. Purpose and Mission

- A. The purpose of the internal audit division is to provide an independent, objective assurance and consulting activity designed to add value and improve North Dakota Retirement and Investment Office (RIO's) operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The internal audit division will assist RIO in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- B. The internal audit division is established by the State Investment Board (SIB). The internal audit division's responsibilities are defined by the SIB and the Audit Committee as part of their oversight role.

Commented [SSK1]: A.1.1 - A.2.1 - Addressing IA purpose and mission.

II. Standards for the Professional Practice of Internal Auditing

- A. The internal audit division will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing to the best of their ability. The Supervisor of Internal Audit will report periodically to the Executive Director and the State Investment Board (SIB) Audit Committee regarding the internal audit division's progress to conformance to the Code of Ethics and the Standards.

III. Authority

- A. The Supervisor of Internal Audit will report functionally to the SIB Audit Committee and administratively (i.e., day-to-day operations) to the Executive Director. To establish, maintain, and assure that RIO's internal audit division has sufficient authority to fulfill its duties, the SIB Audit Committee will:
 - 1. Approve the internal audit division charter.
 - 2. Approve the risk-based internal audit plan.
 - 3. Provide input to the Executive Director on the internal audit division's resource plan.
 - 4. Receive communications from the Supervisor of Internal Audit on the internal audit division's performance relative to its plan and other matters.
 - 5. The SIB Audit Committee Chair will participate in the hiring of the Supervisor of Internal Audit.
 - 6. The SIB Audit Committee Chair will participate in the annual evaluation of the Supervisor of Internal Audit.
 - 7. Make appropriate inquiries of management and the Supervisor of Internal Audit to determine whether there is inappropriate scope or resource limitations.
- B. The Supervisor of Internal Audit will have unrestricted access to, and communicate and interact directly with, the State Investment Board and the SIB Audit Committee, including in executive session and between Board meetings, as appropriate.
- C. The SIB authorizes the internal audit division to:

Commented [SSK2]: A.1.2 - The Audit Committee Chair should annually review the Audit Supervisor as part of their annual review

- D. Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- E. Develop and direct a broad, comprehensive program of internal auditing within RIO.

IV. Independence and Objectivity

Commented [SSK3]: A1.1 & A.2.1 Addressing part of the Code of Ethics Requirement

- A. The Supervisor of Internal Audit will ensure that the internal audit division remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Supervisor of Internal Audit determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.
- B. Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgement on audit matter to others.
- C. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:
 - 1. Accessing specific operations for which they had responsibility within the previous year.
 - 2. Performing any operational duties for RIO.
 - 3. Initiating or approving transactions external to the internal audit division.
 - 4. Directing the activities of any RIO employee not employed by the internal audit division, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.
- D. Where the Supervisor of Internal Audit has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence and objectivity.
- E. Internal auditors will:
 - 1. Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
 - 2. Exhibit professional objectivity in gathering and communicating information about the activity or process being examined.
 - 3. Make balanced assessments of all available and relevant facts and circumstances.
 - 4. Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgements.
- F. The Supervisor of Internal Audit will confirm to the SIB Audit Committee, at least annually, the organizational independence of the internal audit division.
- G. The Supervisor of Internal Audit will disclose to the SIB Audit Committee any interference and related implications and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

V. Confidentiality

Commented [SSK4]: A.1.1 & A.2.1 Addressing part of the Code of Ethics Requirement

- A. Documents and information given to the internal audit division shall be handled in the same prudent and confidential manner as by those employees normally accountable for them. The Supervisor of Internal Audit shall ensure that internal audit staff is instructed in the handling and safeguarding of confidential information. North Dakota's laws state that all government records must be open to the public unless otherwise authorized by a specific law as outlined in North Dakota Century Code §44-04. Internal Audit will follow North Dakota open records laws.

VI. Scope of Internal Audit Activities

- A. The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments of the State Investment Board, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for RIO. Internal audit assessments include evaluating whether:
 - 1. Risks relating to the achievement of RIO's strategic objectives are appropriately identified and managed.
 - 2. The actions of RIO's officers, directors, employees, and contractors are in compliance with RIO's policies, procedures, and applicable laws, regulations, and governance standards.
 - 3. The results of operations or programs are consistent with established goals and objectives.
 - 4. Operations or programs are being carried out effectively and efficiently.
 - 5. Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact RIO.
 - 6. Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
 - 7. Resources and assets are acquired economically, used efficiently, and protected adequately.

- B. The Supervisor of Internal Audit shall report periodically to the Executive Director and the SIB Audit Committee regarding:

Commented [SSK5]: A.1.1 - Periodic reporting on requirements to Audit Committee

- 1. The internal audit division's purpose, authority, and responsibility
- 2. The internal audit division's plan and performance relative to its plan.
- 3. The internal audit division's status on conformance progress with the IIA's Code of Ethics and Standards, and action plans.
- 4. Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the SIB Audit Committee
- 5. Results of audit engagements or other activities.
- 6. Resource requirements.
 - a) If external assistance is needed to fulfill an engagement.
- 7. Any responses to risk by that may be unacceptable to RIO.

Commented [SSK6]: B.2.1 - Language on external assistance.

- C. The Supervisor of Internal Audit also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The internal audit division may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided internal audit division does not assume management responsibility.

- D. Opportunities for improving the efficiency of control processes, governance, and risk management may be identified during engagements. These opportunities will be communicated to the to appropriate levels of management.
- E. Consulting Services: RIO's internal audit provides consulting services in an advisory capacity and are generally performed at the specific request of the Executive Director or other senior management. The nature and scope of the consulting engagement are subject to agreement with management. Consulting may range from formal engagements with defined scopes and objectives to advisory activities such as providing informal guidance in response to general inquiries. When performing consulting services, the internal auditor should maintain objectivity and not assume management responsibility.

VII. Responsibilities

- A. The Supervisor of Internal Audit is responsible to:
 - 1. Submit, at least annually, to the Executive Director and the SIB Audit Committee a risk-based internal audit plan for review and approval.
 - 2. Communicate to the Executive Director and the SIB Audit Committee the impact of resource limitations on the internal audit plan.
 - 3. Review and adjust the internal audit plan, as necessary, in response to changes in RIO's business, risks, operations, programs, systems, and controls.
 - 4. Communicate to the Executive Director and the SIB Audit Committee any significant interim changes to the internal audit plan.
 - 5. Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
 - 6. Follow up on engagement findings and corrective actions, and report periodically to Executive Director and the SIB Audit Committee any corrective actions not effectively implemented.
 - 7. Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
 - 8. Ensure the internal audit division collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
 - 9. Ensure trends and emerging issues that could impact RIO are considered and communicated to Executive Director and the SIB Audit Committee as appropriate.
 - 10. Ensure emerging trends and successful practices in internal auditing are considered.
 - 11. Establish and ensure adherence to policies and procedures designed to guide the internal audit division.
 - 12. Ensure adherence to RIO's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to Executive Director and the SIB Audit Committee.
 - 13. Work towards conformance of the internal audit division with the Standards, with the following qualifications:
 - a) If the internal audit division is prohibited by law or regulation from conformance with certain parts of the Standards, the supervisor of internal audit will ensure

appropriate disclosures and will ensure conformance with all other parts of the Standards.

- b) If the Standards are used in conjunction with requirements issued by other authoritative bodies, the Supervisor of Internal Audit will ensure that the internal audit division conforms with the Standards the best to their ability, even if the internal audit division also conforms with the more restrictive requirements of other authoritative bodies.

VIII. Quality Assurance and Improvement Program

- A. The internal audit division will develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit division. The program will include an evaluation of the internal audit division's conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit division and identify opportunities for improvement.
- B. The Supervisor of Internal Audit will communicate to the Executive Director and the SIB Audit Committee on the progress of the internal audit division's quality assurance and improvement program, including internal assessments. It should be noted that the RIO's internal audit division has not had a quality assurance review and it not in compliance with IIA Standards.

Commented [SSK7]: B.3.4 - Implementation of quality assurance program

Commented [SSK8]: B.3.1 Requirement for internal assessment

Commented [SSK9]: B.4.1 & E.2.1 - Current nonconformance with IIA Standards

DATE INTERNAL AUDIT CHARTER ADOPTED AND APPROVED:

AUDIT SERVICES CHARTER NORTH DAKOTA STATE INVESTMENT BOARD

MISSION

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

OBJECTIVES AND SCOPE

Objectives

Auditing Services

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

Consulting and Advisory Services

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

Scope

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

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

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

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

AUTHORITY

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

ACCESS

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

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

CONFIDENTIALITY

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

INDEPENDENCE AND OBJECTIVITY

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

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

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

RESPONSIBILITIES AND ACCOUNTABILITY

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

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

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

STANDARDS OF AUDIT PRACTICE

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

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

DATE AUDIT SERVICES CHARTER ADOPTED AND APPROVED:

RETIREMENT AND INVESTMENT OFFICE
Internal Audit
2023-2024 1st Quarter Audit Activities Report
July 1, 2023 – September 30, 2023

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, 2023 through June 30, 2024 work plan approved by the SIB Audit Committee. The audit activities undertaken are consistent with the Internal Audit charter and goals, and the goals of RIO. To the extent possible, our audits are being carried out in accordance with the International Standards for the Professional Practice of Internal Auditing. Audit effort is being directed to the needs of RIO and the concerns of management and the SIB Audit Committee.

Investment and Agency Audit Activities

• **Executive Limitation Audit**

Each year the SIB conducts a customer satisfaction survey. The purpose of this annual survey is to determine how well the SIB, through the staff of the RIO, is meeting the expectations of its clients. This survey is part of the SIB's ongoing effort to be more responsive to the needs of their clients and to continually improve the services that are provided. Internal Audit facilitated the survey in August and September 2023. The results were provided to the SIB at their October 26, 2023 meeting.

On an annual basis, Internal Audit 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 will be started in November 2023. The audit will review the calendar year 2023.

• **External Audit Support**

Internal Audit provided support to our external audit partners, CliftonLarsonAllen (CLA), during the GASB 68 Census Data Audit. In June/July 2023, IA sent out twelve employer confirmations as part of the financial statement audit. CLA has not completed the GASB 68 Census Data Audit fieldwork. The report will be presented to the Audit Committee in May of 2024.

The Supervisor of Internal Audit also attended the Legislative Audit and Fiscal Review Committee meeting on July 26, 2023.

• **Governance and Review Committee**

The Supervisor of Internal Audit attended committee meetings. The Governance and Review Committee are currently reviewing and updating the SIB governance manual.

• **Employee Exit Review**

The Supervisor of Internal Audit conducted multiple exit interviews during the first quarter, no employee exit reviews were requested.

• **Administrative Policy Review**

RIO is in the process of updating its Administrative Manual. Internal Audit will work with the Deputy Executive Director/Chief Retirement Officer, the Executive Assistant, and the Contracts/Records Administrative Assistant on reviewing existing policies and recommending additional policies. The

working group is continuing to review the policies and will be forwarding them to the Executive Director who has final approval.

- **Onboarding and Offboarding Procedures**

RIO is in the process of updating its onboarding and offboarding procedures. Internal Audit is working with the Deputy Executive Director/Chief Retirement Office, the Chief Financial Officer/Chief Operating Officer, the Executive Assistant, and the Contracts/Records Administrative Assistant to review existing onboarding and offboarding policies and procedures and recommend enhancements. The final onboarding and offboarding procedures were completed in August 2023.

As part of the onboarding process for new Board members, the Supervisor of Internal Audit presented a Governance Overview on August 2, 2023. In the presentation, an overview of the following topics was discussed:

- Governance
- The SIB Governance Manual
- Executive Limitations
- The standards for the SIB Board
- Governing style
- The Chairperson's role
- Standing Committees
- Board Code of Conduct
- Fiduciary Authority
- The Board and Staff Relationship
- The Executive Director's role

- **Internal Audit Business Process Review**

A working group was established in July 2023. Members of the group are the Executive Director, the Chief Financial/Operating Officer, and the Supervisor of Internal Audit. The Supervisor of Internal Audit has been working with the group on a project plan to implement recommendations from Weaver Consultants. The plan includes internal activities as well as an RFP for co-sourcing activities.

Retirement Program Audit Activities

- **Model 2 Partial Salary Review**

This salary review only includes Model 2 Partial Employers. For fiscal year 2020/21, IA selected one participant from forty-one employers to ensure model compliance. The review will also determine if the retirement salaries and contributions reported to TFFR by the participating employers are complying 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 member eligibility are also verified. This review is currently in process.

- **TFFR Pioneer Project**

Internal Audit staff are participating in the elaboration and design meetings for the Pioneer Project. As a member of the core group, the Internal Auditor attends most of the meetings. The Supervisor of Internal Audit attends the weekly update meetings and elaboration meetings as needed. The development sessions for Pilot 3 concluded July of 2023. Sessions for the final Pilot started in August of 2023. Pilot 4 focuses on the design, appearance, and usability of the employer and member portals. Sessions attended were as follows: Actuarial File, Benefit Payments – cancelation and reissue, Contact Management, the Dashboard, Design approvals, Employer Service Portal, 1099 forms, Member Service Portal, Message Board, Organization Accounts, Required Minimum Distributions, Retired Return to Teach retirees, Service Retirement and the Business Process Model, Tax Forms, and weekly update meetings.

Administrative Activities

The Internal Audit staff attends the monthly RIO staff meetings, monthly RIO manager's meetings, divisional meetings, monthly Fiscal/Organization meetings, IT Tasks meeting to close the fiscal year, monthly Retirement Services' meetings, one Audit Committee meeting, three SIB meetings, and three TFFR meetings (2 normal and 1 special), and a quarterly SIB GPR meeting.

Professional Development/CE/General Education

Audit staff completed ND cybersecurity awareness training *10 Ways to Avoid Phishing Scams*.

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
INTERNAL AUDIT DIVISION
FISCAL YEAR 2023 -2024**

FY 2023 1st QTR	FY 2023 2nd QTR	FY 2024 3rd QTR	FY 2024 4th QTR	FY 2024 TOTAL
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Internal Audit Activities

Investment Program Activities/Audits:

Executive Limitations Audit	8				8
Internal Investing RFP	3				3
Securities Litigation RFP	3				3

Retirement Program Activities/Audits:

TFFR Pension Data System - Pioneer Project	170				170
TFFR Model 2 Partial Review	174				174
TFFR File Maintenance Audit	0				0
TFFR Misc.	31				31

Agency Activities/Audits

Administrative Policy Reviews	53				53
Audit History	13				13
Internal Audit Business Process Review	125				125
Records Management	12				12
RIO External Auditor Assistance	5				5
Onboarding & Offboarding Review	22				22
Employee Exits	10				10
Professional Development/CE/General Education	1				1

Administrative Activities

Administrative - Staff Mtgs, Time Reports, Email, General Reporting, Performance	150				150
Audit Committee Attendance and Preparation	63				63
SIB/TFFR Attendance and Preparation	55				55
Annual Leave, Sick Leave, and Holidays	144				144
Quarterly Total:	1040	0	0	0	1040

Total Hours for 2023-2024 4,160

D. Thorsen Total Hours 2023-2024 2,080

S. Seiler Total Hours 2023-2024 2,080

MEMORANDUM

TO: SIB Audit Committee
FROM: Sara Seiler, Supervisor of Internal Audit
DATE: November 14, 2023
RE: 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

- Executive Limitations – Phase 1
- Model 2 Partial Salary Review – Phase 2 and 3
- RIO Policy Manual update – Phase 3
- Pioneer – Pension Administration Software – Stage 3 Pilot 3 completed and Stage 4 started.

RIO/Investment Activities

IA staff attended the following meetings: monthly manager meetings, monthly staff meetings, monthly Fiscal/Organization meetings, TFFR Agenda Planning, and monthly Retirement Services meetings. IA staff also attended the SIB, TFFR, and SIB GPR meetings.

As part of the Executive Limitation Audit, the Supervisor of IA sent customer surveys to investment clients in September 2023 to determine how well the SIB, through the staff of the RIO, is meeting client expectations. The survey is part of the SIB's ongoing effort to be more responsive to client needs and continually improve the service provided. The survey results were presented to the SIB Board at the October 2023 meeting.

The SIB Audit Committee approved the final report presented by Weaver and Tidwell, LLP on the Internal Audit Business Process Review at the May 2023 Audit Committee meeting. The Supervisor of IA is working with the Executive Director and Chief Financial Officer/Chief Operating Officer on the project coordination and research to achieve short-term and medium-term goals within the internal audit division.

IA staff attended the annual agency staff meeting and training on October 24, 2023. All RIO staff members attended. The day consisted of the following presentations: The Shocking Power of Kindness, Crucial Conversations, Teammate Traits exercises (color system), Communication Channels and Policy Update, and Face-off (a getting to know you exercise). IA also completed the quarterly IT training. The Supervisor of IA also attended a RIO's managers training on conflict management.

The Supervisor of Internal Audit is on the scoring team for an RFP issued by the Securities and Litigation Committee to select of a pool of securities litigation law firms to potentially represent RIO in securities related litigation.

The Internal Auditor has started the process of the annual purge of files.

TFFR Activities

The development sessions for Pilot 3 of the Pioneer project concluded July of 2023. Pilot 4 is in progress. Pilot 4 focuses on the design, appearance, and usability of the employer and member portals. The Internal Auditor attended the following meetings during the month of October and early November: Account payments, Creating and Viewing Organization Accounts and Transactions, Case Management, the Dashboard, Deductions, summary meetings approving completed modules/processes, and the weekly progress meetings.

For the Model 2 Partial Salary Review, the Internal Auditor continues to review the information received from the forty-one employers. IA also attended and presented findings for three members of the sample in a meeting with the Retirement Program Manager, the Compliance Officer, and the Retirement Accountant.

On November 2, 2023, Retirement Services held a virtual new Member Workshop for Employers. There were forty-five employers that attended. IA staff attended and the Supervisor of IA gave a presentation on internal and external audits that affect the employers. The presentation discussed what the audits review, factors for sample selection, and types of information requested. A copy of the presentation is in the audit packet. Retirement Services' presentation introduced the TFFR benefit plan and navigated the RIO Website. The presentation defined eligibility, reportable salary, non-reportable salary, and service hours. Reporting practices for active members and retired members was discussed.

The Internal Auditor reviewed particular sections of the draft of the TFFR Governance Manual at the request of the Deputy Executive Director/Chief Retirement Officer.

Upcoming Audit Activities

The Internal Auditor will complete Phase 2 and will continue with Phase 3 for the Model 2 Partial Audit. The report will be presented at the February 2024 SIB Audit Committee meeting.

Pilot 4 will continue to progress forward. The system is expected to go live in the fall of 2024.

The annual purge of audit files must be completed by November 30, 2023. The report is provided to the Procurement/Records Coordinator.

On an annual basis, a review of the Executive Director's compliance with the State Investment Board (SIB) Governance Manual Executive Limitation Policies A-1 through A-11. The audit will review calendar year 2023.

The RIO's management team has taken on the task to learn more about artificial intelligence (AI) and how it could be incorporated into divisions to help with efficiency and productivity. The Supervisor of Internal Audit will be taking AI training courses on LinkedIn to further their knowledge on the subject.

As approved in the August 2023 SIB Audit Committee meeting, the Supervisor of Internal Audit will be working alongside other executive team members for the development of an RFP focusing on the compliance, regulator, legal, and audit requirements of the internal investing program that is being developed.

MEMORANDUM

TO: SIB Audit Committee
FROM: Dottie Thorsen, Internal Auditor
DATE: November 7, 2023
RE: Update on Model 2 Partial Review

The primary purpose of this review is to ensure Model 2 Partial compliance. Salaries are also being reviewed to determine that the retirement salaries and contributions reported to TFFR by the participating employers are following 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 are also reviewed. This audit will help give assurance on the accuracy of data for the conversion for the Pioneer Project.

During the 2018/19 Participant Data/Salary Verification Review, two employers reporting to TFFR using Model 2 Partial did not meet model compliance. Since the current pension administration system does not verify the Model 2 Partial pick-up/member percentages, IA focused on Model 2 Partial Compliance in this Participant Data/Salary Verification Review.

Internal Audit selected a sample of one member from each of the forty-one Model 2 Partial employers reporting to TFFR during fiscal year 2020/21. The review initially was scheduled to be completed during fiscal year 2022/23. However, due to the time devoted to the Pioneer Project, fieldwork for the review was delayed. Internal Audit notified the employers of the delay in the quarterly TFFR Briefly Newsletter.

Fieldwork was resumed during the first quarter of fiscal year 2023/24. As of November 7, 2023, the following activities have been completed.

- The initial electronic notifications were sent to employers in August/September of 2022. An inventory of information received from that notification was conducted. A second request for information was sent to fifteen employers.
- Two employers still have not provided information. The Supervisor of IA has met with the Deputy Executive Director/Chief Retirement Officer to discuss the next action.
- After IA reviewed the documents provided by two employers, additional information had to be requested. The information has not been returned. Third notifications will be sent to the employers to obtain the information.
- Thirty employer reviews have been completed by IA as of Nov. 7, 2023.
- IA has seven employer reviews left to complete.
- The Internal Auditor met with Retirement Services staff about three of the completed sample reconciliations on November 1, 2023.

What Does Audit Want Now?



INTERNAL AUDIT DIVISION

Sara Seiler & Dottie Thorsen

INTERNAL AUDIT STAFF



Sara Seiler
Supervisor of
Internal Audit



Dottie Thorsen
Internal Auditor

Internal Audit is comprised of two full-time staff that are dedicated to the Retirement and Investment Office.

Different Audit Requests

INTERNAL AND EXTERNAL REQUESTS

RIO's Internal Audit

- Employer Reviews
- Participant Data Reviews

External Auditor

- GASB 67/68 Audit
- Employer Contribution Confirmation

WHAT'S AUDITING LOOKING AT?

Reported salaries and contributions.

Reported service hours.

Eligibility for the TFFR membership.

Model compliance.

FACTORS ON BEING SELECTED

Employer
Size

History of
Reporting
Errors

Length of
time since
last review

Significant
changes
(e.g., model
change)

EXAMPLES OF INFORMATION REQUESTED

Payroll
Records

Contracts

Negotiated
Agreements

Master
Payroll Files

Salary
Reconciliation
Worksheets

School Board
Minutes

Date of Birth
Verification

ESPB
Licensure

BUT I DON'T WANT TO GIVE AUDIT INFORMATION

North Dakota Century Code 15-39.23 authorizes TFFR to issue a \$250 penalty and notify the Department of Public Instruction to withhold state foundation payments funding until information is received.

But why is audit needed?

Provide assurance that Employers are in compliance with TFFR's program requirements.

External auditor reviews and confirmations are required for RIO's financial statement audit and to be able to issue the GASB 68 Schedules.

QUESTIONS?

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Dottie Thorsen

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