

AUDIT COMMITTEE MEETING

Wednesday, August 14, 2024 – 2:30 PM
Workforce Safety & Insurance Board Room
1600 E Century Ave Suite 1, Bismarck, ND 58503
[Click here to join the meeting](#)

AGENDA

- I. **CALL TO ORDER AND ACCEPTENCE OF AGENDA** – *(Committee Action)*
- II. **APPROVAL OF MINUTES (May 15, 2024 & June 21, 2024)** *(Committee Action)*
- III. **GOVERNANCE (75 minutes)**
 - A. Election of Chair and Vice Chair *(Committee Action)* – Treasurer Beadle, Ms. Seiler
 - B. Liaison Appointment *(Appointed by Chair)*
 - C. Internal Audit Maturity Project *(Committee Action)*
 - i. Weaver Presentation - Bruce Mills
 - ii. Work Plan and Next Steps - Ms. Seiler
 - D. Internal Audit Workplan *(Committee Action)* – Ms. Seiler
 - E. Audit Committee and Internal Audit Charter *(Committee Action)* – Ms. Seiler
- IV. **REPORTS (45 minutes)**
 - A. 2023 - 2024 Year End Audit Activities Report *(Committee Action)* – Ms. Seiler
 - B. 2023 – 2024 Audit Committee Report to SIB *(Committee Action)* – Ms. Seiler
 - C. Audit Charter: 2023 -2024 Review of Responsibilities *(Committee Action)* – Ms. Seiler
 - D. Current Audit Activities *(Committee Action)* – Ms. Seiler
 - i. Response to Model 2 Partial Review
 - ii. SIB Onboarding – Internal Audit Overview
- V. **OTHER**

Next SIB Audit Committee Meeting:
Workforce Safety & Insurance Board Room
1600 E Century Ave Suite 1, Bismarck, ND 58503
Monday, November 18, 2024 @ 2:30 PM
- VI. **ADJOURNMENT**

**STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
MAY 15, 2024, 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: 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
Bruce Mills, Weaver

CALL TO ORDER:

Treasurer Beadle called the State Investment Board (SIB) Audit Committee meeting to order at 2:32 p.m. on Wednesday, May 15, 2024, at the WSI Board Room, 1600 E Century Ave., Bismarck, ND.

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

AGENDA:

The agenda was considered for the May 15, 2024, meeting.

IT WAS MOVED BY MR. MILLER AND SECONDED BY MS. CASHMAN AND CARRIED BY A VOICE VOTE TO APPROVE THE AGENDA FOR THE MAY 15, 2024, MEETING AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

MINUTES:

IT WAS MOVED BY MR. MILLER AND SECONDED BY MR. MICKELSON AND CARRIED BY A VOICE VOTE TO ACCEPT THE MINUTES FROM THE FEBRUARY 15, 2024, AND JANUARY 18, 2024, MEETINGS.

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

NAYS: NONE

MOTION CARRIED

FY24 FINANCIAL AUDIT SCOPE AND APPROACH UPDATE:

Ms. Seiler provided an update on the procurement process for the new external auditor who will conduct the FY24 financial audit. The State Auditor's Office finds our external auditor through the procurement process. RIO has no input on the vendor but does need to sign the contract. Staff will add an exception to the Contract Matrix in the SIB Governance Manual to reflect that the Audit Committee will not approve this contract.

The contract with UHY, the new external auditor, has not been executed. The Committee will need a short special meeting to do a kickoff for the financial records audit.

INTERNAL AUDIT (IA) MODERNIZATION PROJECT:

Mr. Bruce Mills, Weaver, provided an update on the IA Modernization Project. Because RIO is growing as an organization, including the addition of the internal investment program, it is vital that the IA function also grows. IA is governed by standards from the Institute of Internal Auditors (IIA). One of the goals for maturity development is to ensure that RIO's IA function is operating at the appropriate level according to those standards. Mr. Mills reviewed the project requirements which include risk assessments for the Investment and Fiscal Divisions and the development of a risk-based IA plan and infrastructure. The project work is expected to be completed in June which is followed by a validation process and final reporting and materials. Committee discussion followed.

IA INTERIM WORKPLAN:

Ms. Sauter reviewed the proposed IA interim workplan. Because the risk assessments aren't finished, a risk-based audit plan cannot be developed. The risk assessments will be completed during the third quarter, enabling the creation of the risk-based audit plan which will be presented to the Committee at the August meeting. Ms. Seiler also shared the plan for coverage during her planned absence. Committee discussion followed.

IT WAS MOVED BY MR. VAN ORMAN AND SECONDED BY MR. MILLER AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE IA INTERIM WORKPLAN.

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

NAYS: NONE

MOTION CARRIED

EXECUTIVE LIMITATIONS/STAFF RELATIONS:

Ms. Murtha provided the Executive Limitations/Staff Relations report. The last two sessions for the new board member orientation curriculum have been scheduled in June and July covering the retirement and internal audit programs. An Investment Intern was hired and will start at the end of the month. The Accounting Intern recruitment was unsuccessful so that will be reposted in the fall. Ms. Murtha summarized the current projects and initiatives and the upcoming conferences and meetings that RIO staff will participate in. RIO's Strategic Plan was provided to the Committee. Ms. Murtha reviewed the process for developing the plan. Committee discussion followed.

THIRD QUARTER AUDIT ACTIVITIES:

Ms. Seiler provided an update on the third quarter audit activities. The Executive Limitations Audit was completed for calendar year 2023. IA staff provided feedback as requested, to the SIB Governance and Policy Review Committee as they review and update the SIB Governance

Manual. For the Retirement Program, IA has completed the Model 2 Partial salary review and continues to participate in the Pioneer Project activities. Ms. Seiler reviewed administrative and professional development activities. Committee discussion followed.

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

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

NAYS: NONE

MOTION CARRIED

CURRENT IA ACTIVITIES UPDATE:

Ms. Seiler provided an update on current IA activities. IA staff have spent a lot of time working with Weaver on the risk assessment process. Ms. Seiler assists the Executive Review and Compensation Committee with administering surveys that are used in the review process for the Executive Director. Planning has begun for the upcoming TFFR File Maintenance Audit. Committee discussion followed.

IT WAS MOVED BY MR. MICKELSON 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

AUDIT COMMITTEE MEETING SCHEDULE – FY24:

IT WAS MOVED BY MS. CASHMAN AND SECONDED BY MR. VAN ORMAN AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE 2024-25 AUDIT COMMITTEE SCHEDULE.

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

NAYS: NONE

MOTION CARRIED.

2024-25 AUDIT COMMITTEE MEMBERSHIP:

Ms. Seiler reviewed the Committee charter in relationship to committee membership. Terms are for one year, with no limit to the number of terms served on the Committee. Ms. Seiler asked the current members to let her know if they wish to serve another term.

With no further business to come before the Audit Committee, Treasurer Beadle adjourned the meeting at 3:52 p.m.

Prepared by: Missy Kopp, Assistant to the Board

**STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
JUNE 21, 2024, SPECIAL MEETING**

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

MEMBERS ABSENT: Todd Van Orman, External Representative

STAFF PRESENT: Missy Kopp, Exec. Assistant
Jan Murtha, Exec. Director
Chad Roberts, DED/CRO
Sara Seiler, Suprv. of Internal Audit
Ryan Skor, CFO/COO
Dottie Thorsen, Internal Auditor

GUESTS : Dean DePountis, Attorney General's Office
Thomas Rey, UHY

CALL TO ORDER:

Treasurer Beadle called the State Investment Board (SIB) Audit Committee meeting to order at 10:04 a.m. on Friday, June 21, 2024. The meeting was held virtually.

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

AGENDA:

The agenda was considered for the June 21, 2024, meeting.

IT WAS MOVED BY MS. CASHMAN AND SECONDED BY MR. MICKELSON AND CARRIED BY A VOICE VOTE TO APPROVE THE AGENDA FOR THE JUNE 21, 2024, MEETING AS DISTRIBUTED.

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

2023-24 FISCAL YEAR (FY) FINANCIAL AUDIT SCOPE AND APPROACH:

Mr. Thomas Rey, UHY, presented the scope and approach for the financial audit for the 2023-24 FY. The engagement scope of the audit will include RIO and TFFR's financial statements and TFFR's GASB 68 schedules as of June 30, 2024, a report on internal controls and compliance, and written communications with the board. Mr. Rey reviewed the work plan, critical audit areas, external and internal audit interplay, and data analysis methodology. Final audit reports are expected to be completed in October and will be presented to the Audit Committee at their November meeting. Committee discussion followed.

IT WAS MOVED BY MS. CASHMAN AND SECONDED BY MR. MICKELSON AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE AUDIT SCOPE AND APPROACH AS PRESENTED.

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

NAYS: NONE

ABSENT: MR. VAN ORMAN

MOTION CARRIED

With no further business to come before the Audit Committee, Treasurer Beadle adjourned the meeting at 10:43 A.m.

Prepared by: Missy Kopp, Assistant to the Board

MEMORANDUM

TO: State Investment Board (SIB) Audit Committee
FROM: Sara Seiler, Supervisor of Internal Audit
DATE: July 30, 2024
RE: Election of Officers

Pursuant to the SIB Audit Charter the Committee will elect a Chair, and a Vice 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.

- **SIB Audit Chair**
(Currently Treasurer Thomas Beadle)
- **SIB Vice Chair**
(Currently Cody Mickelson)

The audit charter also requires a liaison to be appointed by the Audit Committee 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.

- **Liaison – Appointed by Audit Committee Chair**
(Currently Supervisor of Internal Audit, Sara Seiler)

COMMITTEE ACTION. Nominate and approve Chair and Vice-Chair.

Chair to appoint Liaison.



State Investment Board North Dakota Retirement and Investment Office

Internal Audit Maturity Development

August 14, 2024

- Project Overview and Results
- Internal Audit and Audit Committee Charters
- Risk Assessment Process
- 2025 – 2026 Internal Audit Plan for Investments and Fiscal
- Internal Audit Infrastructure
- Governance Model

Internal Audit Maturity Development

The 2024 Internal Audit Maturity Development project was designed to:

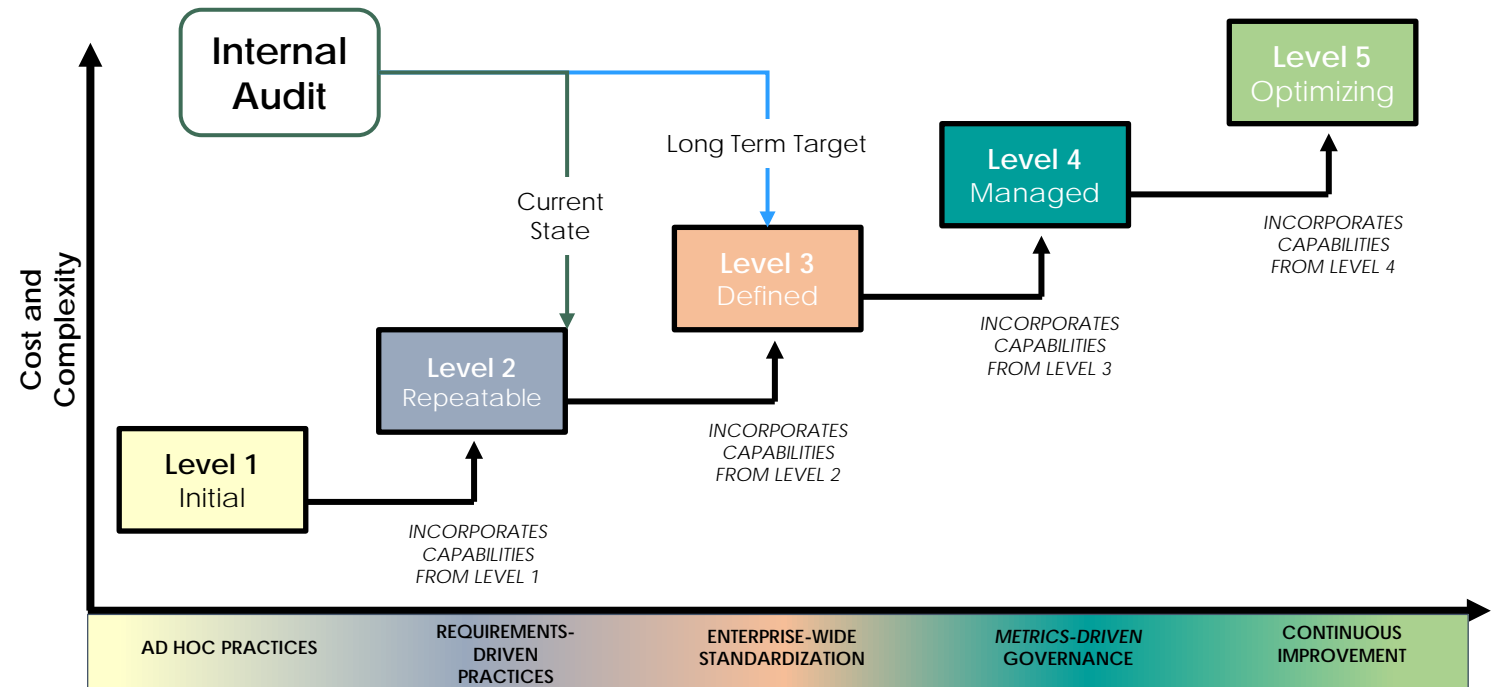
- Support the ongoing growth of ND RIO's Internal Audit function to align with the changes within the organization
- Assist Internal Audit to conform with the new **2024 International Standards for the Professional Practice of Internal Auditing** (the IIA Standards)
- This engagement built on the 2022 Maturity Assessment project with Internal Audit showing the 2022 current state and providing a future state roadmap for the department

Internal Audit Maturity Development

- ▶ The project provided a foundation for Internal audit that conforms with the 2024 **2024 International Standards for the Professional Practice of Internal Auditing** (the IIA Standards)
- ▶ The project has allowed IA to reach their medium-term goal by establishing or refining processes necessary to conform with the Standards
- ▶ Achieving consistent execution of these processes throughout 2024-25 is required to reach Long-Term Target

Maturity Assessment - Goals

Medium Term Goal: **Achieved**
Long Term Target: **June 2025**



Organizations should expect that moving from each level of maturity includes additional components of:

- Cost
- Complexity
- Advanced Business Practices

Internal Audit Maturity Development

Weaver has provided ND RIO the following to help the organization achieve the stated maturity goals

- ▶ A review of the Audit Committee Charter and Internal Audit Charter for compliance with 2024 IIA standards and recommendations of any necessary changes for compliance.
- ▶ A risk assessment over the investment and fiscal divisions of ND RIO and a risk-based multi-year internal audit plan.
- ▶ An Internal Audit Manual consistent with 2024 Institute of Internal Auditors (IIA) standards, including the development of consulting engagement procedures.
- ▶ A review of standard documentation/work paper templates to ensure the identification of sufficient, reliable, relevant, and useful information is consistently applied during audit execution, and provision of all necessary templates to ensure compliance with the newly developed Internal Audit Manual and procedures.

Internal Audit Charter

Mapping to the new 2024 IIA Standards included:

- ▶ Requiring Supervisor of Internal Audit to conduct internal assessments
- ▶ Providing updates to the Audit Committee on adherence to the Standards
- ▶ Clarifying Internal Audit's organizational independence requirements
- ▶ Requiring significant changes to the Audit Plan to be presented to the Audit Committee
- ▶ Clarifying responsibilities of Supervisor of Internal Audit to cover all requirements of new Standards
- ▶ Updating requirements for Quality Assurance and Improvement Program

Audit Committee Charter

Mapping to the new 2024 IIA Standards included:

- ▶ Removing requirements more relevant to the IA Charter
- ▶ Defining the source of Audit Committee's authority
- ▶ Clarifying language and requirements of Audit Committee to:
 - Consult on budget, staffing, and performance objectives of IA
 - Assist with determining internal audit priorities
 - Acknowledge impairments to IA independence when applicable
 - Assisting senior management with ensuring IA is free from interference when determining scope, performing engagements, and communicating results
 - Review staff compliance with the code of ethics, code of conduct, and fraud policies

Risk Assessment and Audit Plan

- ▶ The Risk Assessment covered Investments and Fiscal and aligned with the Internalization Plan
- ▶ Was leveraged to provide Internal Audit an multi-year, risk-based Audit Plan:
 - Focused on the key risks of your organization
 - Inclusive of both assurance and consultative engagements, where needed
 - Aligned with industry best practices and
 - Provided guidance to Internal Audit on the level of effort and technical expertise to complete each audit.
- ▶ Risks and Audit Plan validated with Investments and Fiscal
- ▶ Risks are not static and risk assessment and audit plan should be revised as risks evolve

The image displays several overlapping screenshots of a risk assessment and audit plan document. The documents are organized into sections and tables. Key sections include:

- Process Level Risk Assessment:** A table with columns for Risk ID, Risk Name, Risk Category, Risk Level, and Risk Rating. It lists various risks such as 'Investment Management', 'Fiscal Management', and 'Internal Audit Management'.
- Investments and Fiscal:** A table with columns for Risk ID, Risk Name, Risk Category, Risk Level, and Risk Rating. It lists various risks such as 'Investment Management', 'Fiscal Management', and 'Internal Audit Management'.
- Internal Audit Risk Assessment:** A table with columns for Risk ID, Risk Name, Risk Category, Risk Level, and Risk Rating. It lists various risks such as 'Investment Management', 'Fiscal Management', and 'Internal Audit Management'.
- Internal Audit Plan 2021-2025:** A table with columns for Risk ID, Risk Name, Risk Category, Risk Level, and Risk Rating. It lists various risks such as 'Investment Management', 'Fiscal Management', and 'Internal Audit Management'.

The documents also include sections for 'Risk Assessment Summary', 'Risk Assessment Details', and 'Risk Assessment Results'. The tables contain various data points, including risk levels, risk ratings, and risk descriptions. The documents are presented in a way that shows the flow of information from the risk assessment to the audit plan.

Proposed Audit Plan (Fiscal Years 2025-26)

Weaver reviewed the risks within the Investments and Fiscal divisions of ND RIO, considered the impact of the Internalization plan, considered organizational changes planned and reviewed previous IA engagement results and proposed the following Internal Audit Plan for FY 2025 – 2026

Fiscal Year 2025

Audit Name	Function	Risk Level	Level of Effort	Expertise Level	Proposed Scope
Derivative Investments	Investments	Critical	Moderate	High	Internal Audit over the use of derivatives across the portfolios by relevant asset classes including portfolio restrictions, hedge calculations, exposure monitoring, leverage and collateral management and required reporting. Depending on the timing of the internalization program, this may be conducted as an Advisory Review where IA is imbedded in the implementation and advises on the risks and design of control structure
External Investment Adviser Oversight	Investments	Critical	High	High	Internal Audit of the Public and Private Market teams including selection and oversight of external managers, secondary investing, valuation, material non-public information, portfolio construction, investment compliance, contracting and monitoring LPA terms, alignment with special mandates, and oversight of fees and expenses.
Purchasing and Procurement	Fiscal	Moderate	Moderate	Moderate	Internal Audit over the controls and oversight over the purchasing and procurement processes including purchase orders, vendor management, solicitation development and evaluation, receiving, procurement exemption, procurement cards and contract administration.
Cash Management and Disbursements	Fiscal	Moderate	Moderate	Moderate	Internal Audit of the controls and processes for cash management and disbursements including cash forecasting, cash account reconciliations, payment processing, check requests, wire transfers, ACH payments, and annuity and agency payroll payments.

Proposed Audit Plan (Fiscal Years 2025-26)

Fiscal Year 2026

Audit Name	Function	Risk Level	Level of Effort	Expertise Level	Proposed Scope
Public Equity	Investments	Critical	Moderate	High	Internal Audit over the controls and oversight over the Public Equity investment processes including portfolio construction, rebalancing, investment restrictions and compliance, external manager selection and oversight, oversight of fees and expenses and segregation of duties. The timing of this engagement would correlate with the rollout of passive and active indexing
Governance	Investments	Critical	High	High	Internal Audit of Governance including board reporting and oversight; investment approval processes; disclosure and participant communication; vendor oversight and concentration; fees and expenses; custodian oversight; data quality and integrity; portfolio asset and risk allocation; performance benchmark selection, measurement and reporting; asset liability studies; investment risk including market, country, sector, volatility, credit, model, tracking error, VaR, liquidity and counterparty risks; broker dealer concentration; investment reporting; compensation and incentives and staff performance measurement.
Investment Compliance and Conflicts of Interest	Fiscal	High	Moderate	Moderate	Internal Audit of the oversight of investment compliance within the portfolio along with conflicts of interest associated with investments including portfolio compliance, material non-public information, information barriers, economic interests, segregation of duties, disclosures, personal trade reporting, approved brokers, restricted lists, blackout periods, trade monitoring, reporting, and exception resolution. This may be an Advisory Engagement as the compliance programs are put in place.
Investment Accounting, Operations and Administration	Fiscal	High	Moderate	Moderate	Internal Audit of the controls and processes for trade operations and accounting including confirmation and settlement, reconciliations, collateral management, trade exceptions, security master, corporate actions, cash reporting, and custodian oversight. Audit would also include valuation controls, stale pricing, illiquid investments, pricing vendors, and overrides. Within Accounting the focus would include IBOR & ABOR reconciliations, custodian reporting, market value and annual reporting. This audit could be tied to the Investment Accounting audit in Fiscal.

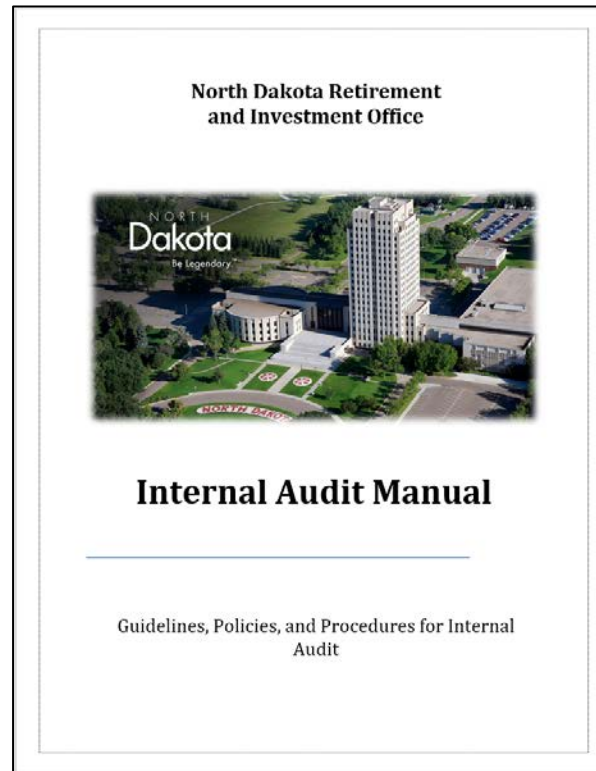
Internal Audit Infrastructure Materials

The engagement also requested provision of the necessary Internal Audit infrastructure to maintain compliance with the new Standards which included:

- An Internal Audit Manual consistent with the 2024 Institute of Internal Audit Standards. Consulting engagement procedures that provide guidance and methodology following industry best practices for determining key projects for inclusion in the Audit Plan are imbedded in each requirement under the new standards and were included in the Manual.

Internal Audit Manual Contents:

- Purpose and Scope of Internal Audit
- Governance
- Professional Standards
- Organization-level Audit Planning
- Audit Engagement Planning
- Fieldwork
- Reporting
- Follow Up
- General Administration
- Independence and Confidentiality
- Internal Audit Plan
- Scope and Objectives Template



Internal Audit Infrastructure Materials

The engagement also requested provision of the necessary Internal Audit infrastructure to maintain compliance with the new Standards which included:

- 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

- Source of the evidence and date obtained
- Objective of the procedure
- Procedures performed
- Sampling methodology, as applicable
- Results
- Conclusions

- Internal audit planning and work paper templates based on procedures documented in the new Internal Audit Manual including:

- Internal Audit Documentation Checklist
- Scope and Objectives Document
- Expected Control Matrix
- Initial Document Request List
- Audit Program Template
- Example Test Sheet – General
- Findings and Observations Matrix

The collage displays several key internal audit templates:

- PROCEDURE Table:** A table with columns for ID, Title, Purpose, Criteria, Assignee, Reviewer, and Findings. It lists various audit procedures such as 'Internal Planning Meeting', 'Client Planning Meeting', and 'Finalization of Planning'.
- Planning Table:** A table with columns for Milestone, #, Document, Priority, Assigned to, Completed?, Review, and Due Date / Meeting date. It details the planning process, including 'Internal Planning Meeting', 'Client Planning Meeting', and 'Finalization of Planning'.
- Field Work Table:** A table with columns for Milestone, #, Document, Priority, Assigned to, Completed?, Review, and Due Date / Meeting date. It details the field work process, including 'Field Work', 'Quality Control', and 'Reporting'.
- Quality Control Table:** A table with columns for Milestone, #, Document, Priority, Assigned to, Completed?, Review, and Due Date / Meeting date. It details the quality control process, including 'Field Work', 'Quality Control', and 'Reporting'.
- Reporting Table:** A table with columns for Milestone, #, Document, Priority, Assigned to, Completed?, Review, and Due Date / Meeting date. It details the reporting process, including 'Field Work', 'Quality Control', and 'Reporting'.
- Findings and Observations Matrix:** A table with columns for Milestone, #, Document, Priority, Assigned to, Completed?, Review, and Due Date / Meeting date. It details the findings and observations process, including 'Field Work', 'Quality Control', and 'Reporting'.

Continued Evolution of Internal Audit and ND RIO

To continue the evolution and maturation of Internal Audit function and achieve the long-term target maturity level will need to:

- ▶ Consistently follow the Internal Audit methodology provided in the Charter and IA Manual focusing on new requirements and new processes for
 - Risk assessments
 - Planning
 - Audit execution
 - Quality review
- ▶ Continue to receive organizational support regarding resources including budget for:
 - Staffing
 - Technical expertise
 - Training
 - Technology
- ▶ Continued evolution of the three Lines of Defense Governance Model across ND RIO as the organization grows in complexity

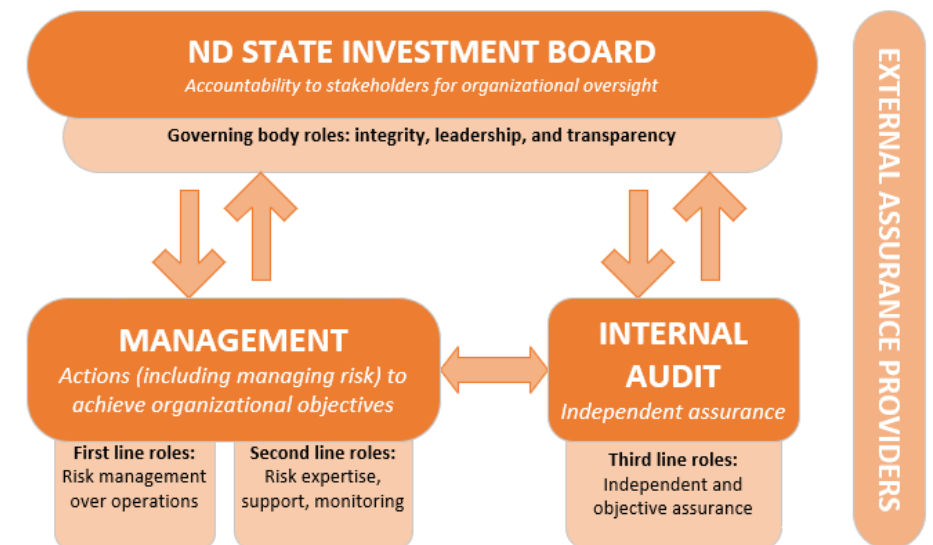
Three Lines of Defense Governance Model

The Three Lines Governance Model provides structure and processes to assist in the achievement of objectives by facilitating strong governance and risk management. Each of the three lines plays a distinct role within North Dakota Retirement and Investment Office's control environment.

- **ND State Investment Board:**
The ND State Investment Board (SIB) provides overarching accountability, responsibility, and oversight over RIO's ability to achieve objectives.
- **First Line – Management**
Management is responsible for maintaining effective internal controls and for executing risk and control procedures on a day-to-day basis within their business units including identifying and assessing controls and mitigating risks.
- **Second Line – Risk and Compliance**
Helps build and monitor first line controls and ensures risk and controls are effectively managed. Reviews and challenges the effectiveness of controls established by the First Line, ensuring alignment with broader organizational risk policies and regulatory requirements
- **Third Line – Internal Audit**
Provides assurance to senior management and the Board that the First- and Second-Line's efforts are consistent with expectations and requires a high level of organizational independence and objectivity.

IA may not direct or implement processes but should provide advice and recommendations regarding processes.

IA also coordinates with internal and external providers of assurance services to consider reliance on their work to prevent duplication of efforts, highlight gaps in coverage of key risks, and enhance value to ND RIO.





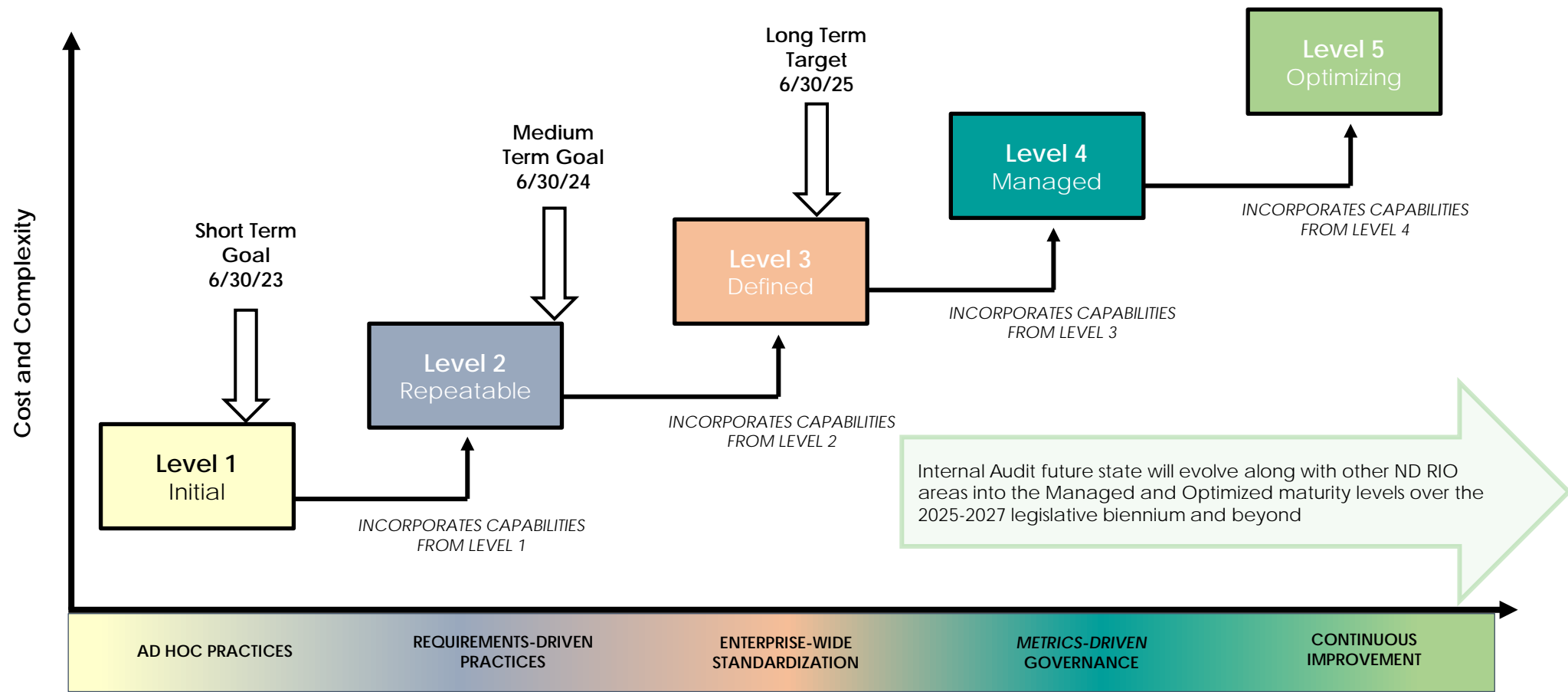
Appendix

1. 2022 Maturity Assessment Materials
2. Weaver Project Team and Practice Information

ND RIO - Internal Audit

2022 Maturity Goals and Target Future State

Internal Audit (IA) has set the following short-, medium-, and long-term maturity goals and target for the department to inform the future state roadmap based on Weaver’s recommendations. The recommendations will be leveraged to help IA build a structured plan for their future state development.

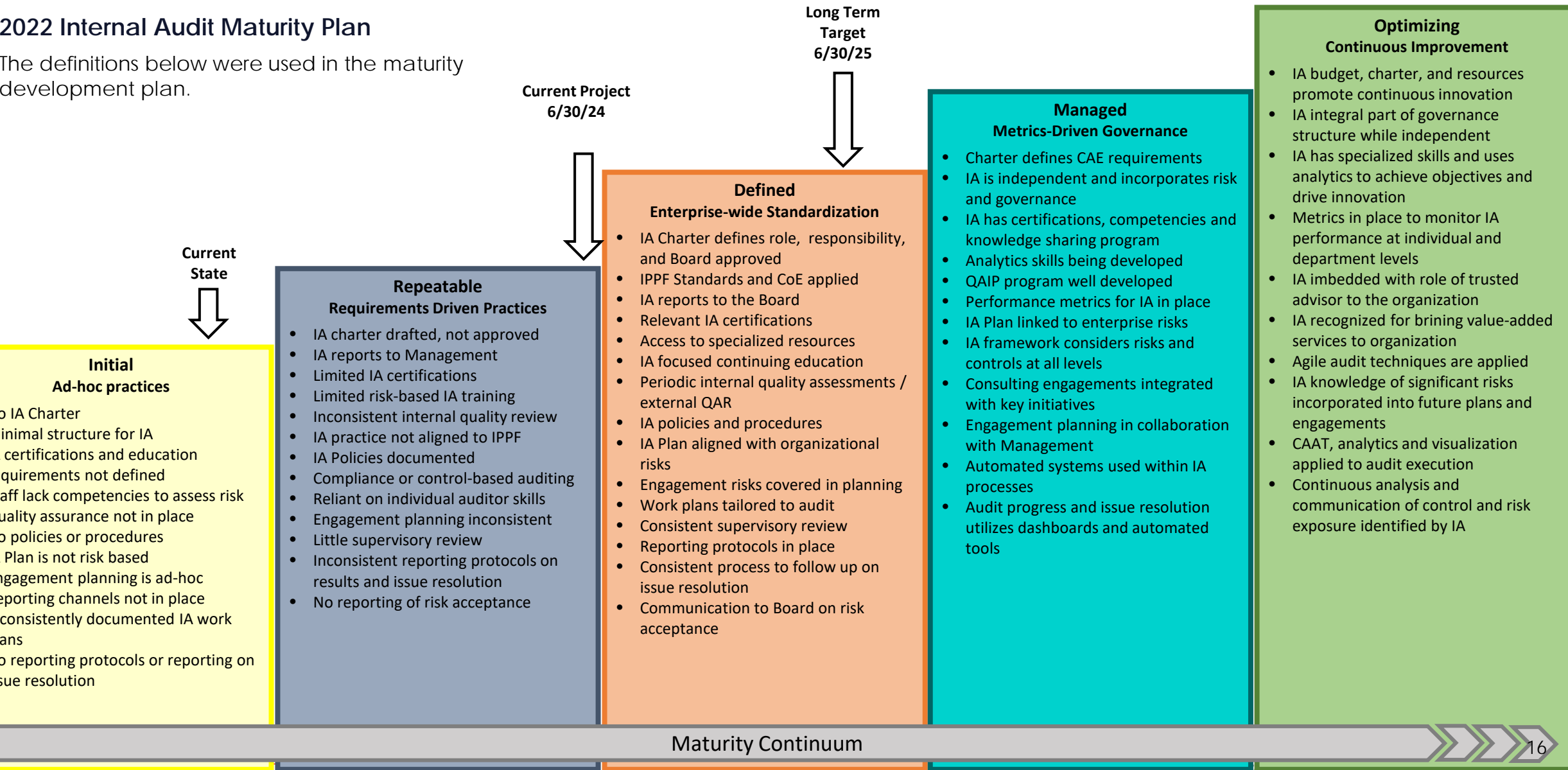


Appendix

Internal Audit Maturity Development

2022 Internal Audit Maturity Plan

The definitions below were used in the maturity development plan.



Appendix

Staffing and Resources

Weaver reviewed the staffing resources needed for Internal Audit, and the following recommendations were presented to the State Investment Board Audit Committee in February 2023.

1. Using Weaver’s standard model for co-sourcing of Internal Audit for government agencies, ND RIO showed a shortfall in anticipated audit hours. The 6,000 hour benchmark was established based on historical engagements with similar agencies and provides an organization approximately 6-8 internal audits each year.
2. The Internal Audit team as currently structured did not appear to have the capacity to meet the typical Internal Audit Plan, when accounting for the functional responsibilities of the Audit Supervisor as the Head of Audit.
3. Government agencies typically address these shortfalls through a combination of:
 - Additional Headcount
 - External Resources (Co-source, Loan Staff)

Additional Resource Considerations

- ▶ The proposed plan to internalize the investment process will add additional complexity to the Internal Audit risk assessment, audit planning, and the audits being conducted.
- ▶ Internal Audit will likely need additional resources in order to meet current audit plan requirements and be positioned to conduct future audit work, especially related to investment internalization
 - Additional training in investments products, audit procedures and required controls.
 - External assistance to provide advice and guidance as well as build and begin executing an audit plan focused on investments.
 - Additional junior level auditor(s) to conduct routine audit work that would allow the Audit Supervisor to focus on management responsibilities.
 - An external resource such as a firm with professional practices experience to assist Internal Audit in enhancing its operating practices and processes while allowing it to continue progress against the current audit plan and other responsibilities.

ND RIO Staffing Model Asssessment

One Full Time Equivalent (FTE) Auditor	Hours
Total Annual Hours Available	2,080
Less Hours For:	
Vacation and Sick Leave	(160)
State Holidays (11)`	(88)
Continuing Professional Education	(40)
Administrative Duties	(192)
Total Annual Hours Per Auditor	1,600

Total Annual Hours Available by Role		
Associate	100%	1,600
Senior Auditor(a)	90%	1,440
Head of Audit(b)	50%	800
ND RIO Internal Audit Expected Hours		2,240
(a) Dorothy Thorsen		
(b) Sara Seiler		

Weaver's Co-Sourcing Resource Model	
Expected Audit Hours Annually	6,000
ND RIO Available Hours	2,240
Hours Shortfall	3,760
FTE Shortfall (Associate level)	2.4

ND RIO Annual Plan	
ND Internal Audit Plan	4,160
ND RIO Available Hours	2,240
Audit Hours Shortfall	1,920
FTE Shortfall (Associate level)	1.2

Appendix 2

Your Engagement Team

Alyssa Martin, CPA

Engagement Partner, Exec. Level POC | National Strategy Leader, Large Market and Public Entities

CLIENTS: California State Teachers' Retirement System (CalSTRS), California Public Employee's Retirement System (CalPERS), North Dakota Retirement Investment Office (ND RIO), Los Angeles County Employees Retirement Association (LACERA), Los Angeles City Employees' Retirement System (LACERS), Employees Retirement System of Texas (ERS) and the Texas Municipal Retirement System (TMRS)



Bruce Mills, CIA, CFE

Engagement Lead | Partner
Asset Management Consulting

CLIENTS: California State Teachers' Retirement System (CalSTRS), California Public Employee's Retirement System (CalPERS), North Dakota Retirement Investment Office (ND RIO), Employees Retirement System of Texas, State Board of Administration of Florida, San Diego County Employees Retirement Association (SDCERA), Los Angeles County Employees Retirement System (LACERS)

Holly Hart, CPA, CIA

Senior Manager | Risk Advisory Services

CLIENTS: California State Teachers' Retirement System (CalSTRS), California Public Employee's Retirement System (CalPERS), Los Angeles County Employees Retirement Association (LACERA), North Dakota Retirement Investment Office (ND RIO)



Marci Sundbeck, CIA, CISA, CCSA, CFE, CRMA

Senior Consultant | Risk Advisory Services

CLIENTS: California State Teachers' Retirement System (CalSTRS), California Public Employee's Retirement System (CalPERS), Employees Retirement System of Texas, Los Angeles County Employees Retirement System (LACERS), Los Angeles County Employees Retirement Association (LACERA)

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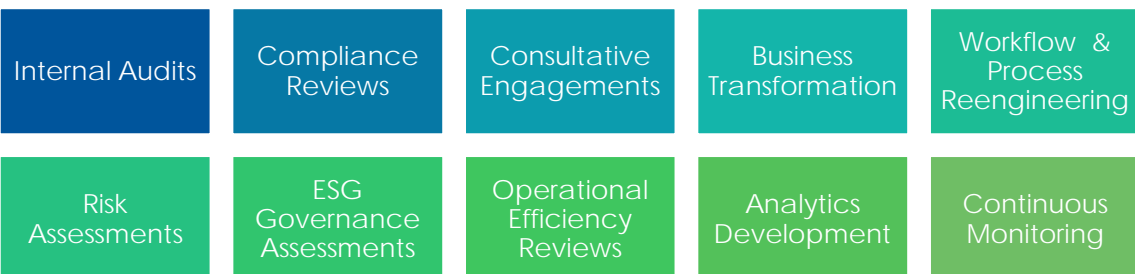
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|----------------------|--|
| » Government | » Technology |
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Appendix 2

Asset Management Consulting Practice

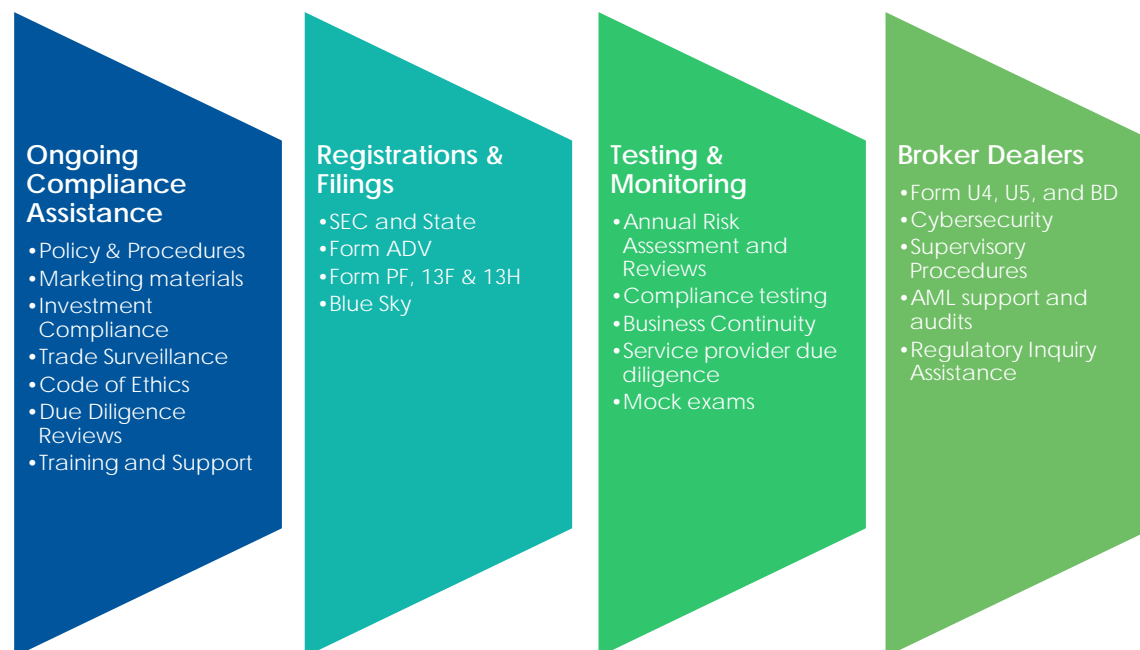
Weaver's **Asset Management Consulting** practice can provide internal audit, regulatory compliance, risk and management consulting services for investment advisers and asset managers.

- Internal Audit capabilities across the asset management lifecycle covering public and private funds, ETFs, pensions and other investment vehicles. We have experience conducting internal audit control and advisory reviews for portfolio management, trading, operations, ESG, compliance, and distribution.
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Bruce Mills

Partner, CIA, CFE

Email: Bruce.Mills@Weaver.com

Phone: 832.320.3211

MEMORANDUM

TO: SIB Audit Committee
FROM: Sara Seiler, Supervisor of Internal Audit
DATE: August 8, 2024
RE: Internal Audit Modernization Project Update

Internal Audit Modernization Workplan

Timeframe	Activity	Status
November 2023	Project Plan Presentation to A.C. Update Internal Audit Charter	Completed
December 2023	Issue RFP for: <ul style="list-style-type: none"> Risk Assessment (Investment & Fiscal Divisions) Audit Manual (compliance with new IIA standards) Policies & Procedures 	RFP was issued in November 2023 and Weaver was selected in January 2024.
November 2023 – June 2024	Continue working on recommendation internally to complete short-term and mid-term goals.	With the 2024 IIA standards being issued in January 2024, IA staff is working on the recommendations while also reviewing the new Standards.
February 2024	Progress update to Audit Committee	Completed
February – August 2024	Work with selected vendor on risk assessment, audit manual & templates.	Risk assessment is near completion, audit manual and templates are in process.
March/April 2024	Evaluate budget needs for 25-27 biannual session regarding: <ul style="list-style-type: none"> Training Resources Data Analytics Quality Assurance Review 	One additional FTE for the internal audit division will be requested in the upcoming legislative session. Internal Audit will be looking to get additional resources through a co-sourcing relationship.
May 2024	Progress update to Audit Committee (AC).	Status update will be provided at May Audit Committee meeting.
May/June 2024	Risk Assessment Retirement Division – Internally	Risk Assessment for the Retirement Division is near completion.
Approx July 2024	Implement new policies & procedures for all Internal Audits	Internal audit manual is in draft form and will be finalized in

		September 2024.
August 2024	Bring updated Audit Plan to AC Necessary changes to Internal Audit Charter reflecting updated IIA standards. Evaluate progress of IA maturity	Proposed audit plan being presented at the August Audit Committee meeting. Recommended changes to the Audit Committee and Internal Audit Charter also being presented. Weaver provided an update on the progress of Internal Audits maturity.

MEMORANDUM

TO: SIB Audit Committee
FROM: Sara Seiler, Supervisor of Internal Audit
DATE: August 14, 2024
RE: Internal Audit Next Steps

With the completion of the risk assessment and review of current resources available for internal audit, the following is being proposed: the development of a request for proposal (RFP) for a co-sourcing relationship for internal audit for additional resources to complete the audit plan. This relationship would include having internal audits outside of staff's expertise being completed for the investment and fiscal divisions. The RFP would be developed by the Supervisor of Internal Audit, Executive Director, and Chief Financial Officer/Chief Operating Officer. The RFP would be presented at the November Audit Committee meeting for approval. A special Audit Committee meeting would be held in January or February to interview and select the finalist.

COMMITTEE ACTION REQUESTED: Committee Acceptance.

MEMORANDUM

TO: State Investment Board (SIB) Audit Committee
FROM: Sara Seiler, Supervisor of Internal Audit
DATE: August 1, 2024
RE: 2024 – 2025 Internal Audit Workplan

The following information details the proposed workplan for Internal Audit for the 2024 – 2025 fiscal year. This workplan represents what Internal Audit anticipates will be accomplished in the upcoming fiscal year, however, needs and priorities may change and this workplan may require adjustments. Any anticipated changes will be discussed with the SIB Audit Committee as they are identified. Frequency, hours, and reporting are addressed where applicable.

Internal Audit will allocate resources to the following audit, advisory, and quality assurance activities during fiscal year 2025:

INTERNAL AUDIT CO-SOURCING REQUEST FOR PROPOSAL:

Through the risk assessment and a resource assessment completed by Weaver additional resources to meet the audit plan are needed. Internal audit staff and senior management are proposing a request for proposal (RFP) for additional audit resources to perform internal audits for the investment and fiscal divisions. This would be approximately 2-3 audits a year that would be a combination of co-sourcing and outsourcing depending on the availability of internal audit staff.

Total Hours Allocated: 100

EXECUTIVE LIMITATION AUDIT:

On an annual basis, the Executive Director's compliance with the State Investment Board (SIB) Governance Manual Executive Limitation Policies A-1 through A-11 is reviewed. The most recent calendar year is included in the audit. As a part of the Executive Limitation Audit process, internal audit facilitates a number of surveys. In December of each year, staff is asked to evaluate the Executive Director in the areas of leadership, communication, and valuing employees. At the request of the SIB Executive Review Committee, internal audit will also facilitate and compile the results of the survey administered to members of the SIB each February as a part of their evaluation of the Executive Director.

Total Hours Allocated: 200

Audit Report Recipients: Executive Director, SIB Audit Committee, SIB Executive Review and Compensation Committee

SIB EXECUTIVE REVIEW AND COMPENSATION COMMITTEE:

On an annual basis, the Executive Review & Compensation Committee (ERCC) will facilitate a board self-assessment. The ERCC typically will request the assistance of the Supervisor of Internal Audit to administer,

compile, and report the survey results. Also, at the request of the ERCC, internal audit will also facilitate surveys for the Executive Director, Deputy Executive Director/Chief Retirement Officer, and the Chief Investment Office.

Total Hours Allocated: 40

Audit Report Recipients: Executive Review & Compensation Committee, SIB Audit Committee, and SIB

PURCHASING AND PROCUREMENT AUDIT:

An internal audit of the controls and oversight over the purchasing and procurement processes including purchase orders, vendor management, solicitation development and evaluation, receiving, procurement exemption, procurement cards and contract administration.

Total Hours Allocated: 450

Audit Report Recipients: Executive Director, Chief Financial Officer/Chief Operating Officer, Procurement and Records Management Coordinator, and SIB Audit Committee

INVESTMENT COMPLIANCE - ADVISORY:

An investment compliance department is being established through Weaver. The compliance program will encompass the entire investment program. As the program is being established internal audit will be in an advisory role for guidelines, controls, policies, and procedures.

Total Hours Allocated: 40

EXTERNAL INVESTMENT ADVISOR OVERSIGHT AUDIT (CO-SOURCE):

An audit of the public and private Market teams including selection and oversight of external managers, secondary investing, valuation, material non-public information, portfolio construction, investment compliance, contracting and monitoring terms, alignment with special mandates, and oversight of fees and expenses. This audit would be a co-sourced audit.

Total Hours Allocated: 80

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

PIONEER PROJECT:

The Pioneer Project is in the final phase of implementation and is set to go live at the end of calendar year 2024. Internal audit will continue to participate in meetings and testing until the project is fully implemented.

Total Hours Allocated: 300

TFFR PIONEER PROJECT TESTING:

After the Pioneer Project is implemented, internal audit is proposing doing monthly audits on the system. This would include sample of retirements, disabilities, purchases, refunds, and business partner related processes to ensure that calculations are correct, and the system is processing the information correctly.

Total Hours Allocated: 350

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

TFFR FILE MAINTENANCE AUDIT:

Internal audit of the Retirement and Investment Office (RIO) will review system generated (CPAS) audit tables to ensure transactions initiated by RIO staff are expected and appropriate given the role in the organization. The

processes for entering information from member action forms, change of address forms, and direct deposit forms are also reviewed. A sample of members will be reviewed for each of the processes to verify the information on the form is the same as the information in the system. A sample of deaths, disabilities, purchases, refunds, and retirements will also be reviewed.

Total Hours Allocated: 450

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

GENERAL BUSINESS PARTNER ADVISORY:

Retirement services may request consulting services from internal audit staff about employer reporting issues throughout the year.

Total Hours Allocated: 30

EXTERNAL AUDITOR ASSISTANCE:

Internal audit assists our external auditor with a variety of tasks related to the annual financial audit. Internal audit is responsible for notifying participating employers that they have been selected to participate in an upcoming GASB 68 Census Data Audit. Internal Audit is also responsible for ensuring any information requested from participating employers is provided timely to our external audit partners.

Total Hours Allocated: 50

RECORDS RETENTION:

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

IA staff is responsible for the following information:

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

Total Hours Allocated: 75

SPECIAL PROJECTS

Time has been allocated if there is an ask for assistance in any special projects that may arise.

Total Hours Allocated: 40

Audit Report Recipients: SIB Audit Committee and SIB

SUCCESSION PLANING/KNOWLEDGE TRANSFER

Internal audit has been going through a transformational change in the last couple of years. Time is being allocated to spend time on cross training between the two internal audit staff members. This is on historical

knowledge and procedures being put in place. This is to ensure there is cohesiveness in the internal audit division.

Total Hours Allocated: 80

RISK ASSESSMENT & AUDIT PLANNING

The risk assessment will be reviewed on a semi-annual basis to ensure there are no major changes that need to be brought forth to the audit plan. In April-May of the year, time will be spent preparing the annual audit plan for the upcoming fiscal year.

Total Hours Allocated: 150

PROFESSIONAL DEVELOPMENT

Professional development and continuing education opportunities are critical to continued professional success. All staff members of internal audit are members of the Institute of Internal Auditors (IIA). Staff members attend educational opportunities provided by our local IIA chapter when available. The IIA also offers free webinars to all IIA members throughout the year which cover a variety of auditing related topics. RIO is also a member of the Association of Public Pension Fund Auditors (APPFA). When able, internal audit staff will attend training. RIO also does staff training throughout the year such as all staff training days and other required agency training.

Total Hours Allocated: 60

Internal Audit will allocate resources to the following administrative activities during fiscal year 2025:

ANNUAL LEAVE, SICK LEAVE, AND HOLIDAYS:

The staff auditor earns 192 hours of annual leave per year (16 hours per month). The Supervisor of Internal Audit earns 144 hours of annual leave per year (12 hours per month). The current workplan makes an allowance for each staff member to utilize 100 hours of sick leave per year. Given the nature of such leave it is anticipated that more or less leave could be utilized. The Supervisor of Internal Audit will be taking a twelve week leave of absence during the second quarter. During the fiscal year, all state offices will close on ten observed holidays including New Year's Day, Martin Luther King Jr Day, President's Day, Good Friday, Memorial Day, Independence Day, Labor Day, Veterans Day, Thanksgiving Day, and Christmas Day.

Total Hours Allocated: 1,005

STAFF MEETINGS, REPORTING, AND EMAIL:

Audit staff engages in numerous activities required to facilitate the day-to-day operations of both the department and the organization. Internal Audit participates in division staff meetings and organization wide staff meetings. Staff members also must manage electronic communication, complete time and general reporting activities, and ensure compliance with published records retention procedures.

Total Hours Allocated: 390

SIB AUDIT COMMITTEE, SIB, AND TFFR BOARD MEETINGS

The Supervisor of Internal Audit is required to prepare meeting materials for all SIB Audit Committee meetings. On some occasions, meeting materials are also required for SIB and TFFR meetings as Internal Audit provides quarterly updates to both boards. The Supervisor of Internal Audit attends (whenever possible) all SIB Audit Committee, SIB, and TFFR meetings. The staff auditor attends SIB Audit Committee meetings and TFFR Board meetings.

Total Hours Allocated: 270

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
INTERNAL AUDIT DIVISION
BUDGETED HOURS FOR THE FISCAL YEAR JULY 1, 2024 TO JUNE 30, 2025

	2024-2025 BUDGET HOURS (2 FTE'S)
Primary Audit Responsibilities - Total Hours Allocated: 2,495	
Internal Audit Co-Sourcing Request for Proposal	100
Executive Limitations Audit	200
Executive Review and Compensation Committee	40
Purchasing and Procurement Audit	450
Investment Compliance - Advisory	40
External Investment Advisor Oversight Audit (co-source)	80
TFFR Pioneer Project Testing	350
TFFR File Maintenance	450
TFFR Pioneer Project	300
General Employer Advisory	30
External Auditor Assistance (Financial, GASB, Actuary, etc.)	50
Records Retention	75
Special Projects	40
Succession Planning/Knowledge Transfer	80
Risk Assessment & Audit Planning	150
Professional Development	60
	2,495
% of Available Hours Allocated to Primary Audit Responsibilities	60%
Primary Administrative Responsibilities - Total Hours Allocated: 1,665	
Annual Leave, Sick Leave, and Holidays	1,005
Staff Meetings, Reporting, & Email	390
SIB Audit Committee, SIB, and TFFR Board Meetings	270
Preparation and Attendance	
	1,665
% of Available Hours Allocated to Primary Administrative Responsibilities	40%
Total 2024-2025 Budget Hours	4,160
Total Budget Hours for 2024 - 2025	4,160
Budget Hours for D. Thorsen	2,080
Budget Hours for S. Seiler	2,080

MEMORANDUM

TO: SIB Audit Committee
FROM: Sara Seiler, Supervisor of Internal Audit
DATE: August 8, 2024
RE: Audit Committee and Internal Audit Charter

Weaver reviewed the Audit Committee and the Internal Audit Charter and recommended updates to be in alignment with the 2024 the Institute of Internal Auditors (IIA) standards.

COMMITTEE ACTION REQUESTED: Approval of the proposed Audit Committee and Internal Audit Charter

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

PURPOSE AND MISSION

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 SIB in carrying out its oversight responsibilities as they relate to the Retirement and Investment Office (RIO) internal and external audit programs, including financial and other reporting practices, internal controls, and compliance with laws, regulations, and ethics. ~~A. The purpose of the internal audit division is to provide an independent, objective assurance and advisory 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.~~

Commented [SSK1]: Recommended to remove this section as it pertains to the Internal Audit responsibilities, not the Audit Committee

AUTHORITY

The Committee's authority comes from the SIB Governance Policy F, ~~Standing Committees, and~~ 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.

Commented [SSK2]: A.1.2 - Providing specific details on the statutory authority from ND RIO from the state to manage the trust funds in the state regulations

The RIO's Supervisor of Internal Audit will be the staff member reporting administratively to the Executive Director 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—Teachers' Fund for Retirement~~ representative, member-at-large, 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.

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 videoconference. 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:

- Internal and external audit programs
 - Includes financial and other reporting practices.
- Internal controls
- Compliance with laws, regulations, and ethics

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-Audit charter~~Charter, consult on the activitiesbudget, activities, staffing, ~~and~~ organizational structure, and performance objectives of Internal Audit.
- Review and approve the annual risk-based audit work plan, ~~and~~ all major changes to the plan and provide Board's perspective to assist with determining internal audit priorities.
- Acknowledge the actual or potential impairments to the internal audit function's independence when approving roles or responsibilities for the Supervisor of Internal Audits that are beyond the scope of internal auditing.
- Assist senior management with ensuring that the internal audit function is free from interference when determining its scope, performing internal audit engagements, and communicating results.
- 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-hiring~~ and annual evaluation of the Supervisor of Internal Audit. Work with the Executive Director on any changes in staffing, including the addition, of internal audit staff, termination, or replacement of auditors, and the approval of salary increases and/or promotions other than those authorized by the legislature.

Commented [SSK3]: AC1.3, Standard 8.3, Essential Conditions, Board, Also address new Standard 12.2 performance management.

Commented [SSK4]: AC 1.3, Standard 8.1, Essential Conditions, Board

Commented [SSK5]: AC 1.3, Standard 7.1 Essential Conditions, Board

Commented [SSK6]: AC 1.3, Standard 7.1 Essential Conditions, Board

Commented [SSK7]: AC.1.4 - Addresses - New standard 12.2 Performance Measurement

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, as related to the code ethics, code of conduct, fraud policies, 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 requested, 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 [Audit](#) 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 provides an independent, objective assurance and advisory 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.

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' Global Internal Audit Standards which incorporate the 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 and Mission of Internal Audit, to the best to their ability. The Supervisor of Internal Audit Chief Audit Executive (CAE) is responsible for conducting a structured internal assessment in accordance with the IIA's Standards. Additionally, the Supervisor of Internal Audit CAE will provide regular updates to the Executive Director and the State Investment Board (SIB) Audit Committee on the internal audit division's adherence to the Code of Ethics and the Standards. The Supervisor of Internal Audit will report periodically to the Executive Director and the State Investment Board (SIB) Audit Committee regarding the internal audit divisions 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 ~~and document~~ which includes the greatest areas of risk.
 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:
1. 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.
 2. Develop and direct a broad, comprehensive program of internal auditing within RIO.

IV. Independence and Objectivity

- 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, ~~expect 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 creating, gathering and 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 annually verify the internal audit division's organizational independence by assessing whether its role, in comparison to that of the first and second lines, is effectively communicated throughout the organization. Additionally, any work previously carried out by internal audit on behalf of business partners will be transitioned back to the first line. 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

- 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:
1. The internal audit division's purpose, authority, and responsibility
 2. The internal audit division's audit work 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 any 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, Additional resourcing should be utilized by internal Audit to complete its current as well as anticipated the work.
 7. Any responses to risk ~~by~~ that may be unacceptable to RIO.
- C. The Supervisor of Internal Audit also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and advisory 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.
- ~~C-D.~~ Any significant changes to the annual internal audit plan should be disclosed, documented, and approved by the SIB Audit Committee.
- ~~D-E.~~ 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-F.~~ Advisory Services: RIO's internal audit provides advisory 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 an advisory engagement are subject to agreement with management. Advisory services 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 advisory services, the internal auditor should maintain objectivity and not assume management responsibility.

VI.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. The audit plan should focus on reviews that address the greatest risks.
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. Should focus on audit reviews that address the greatest risks.
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.
- ~~5-6.~~ Ensure that the appropriate work programs are approved prior to their implementation and any adjustments are approved promptly.
- ~~6-7.~~ Follow up on engagement findings and corrective actions, and report periodically to the Executive Director and the SIB Audit Committee any corrective actions not effectively implemented.
- ~~7-8.~~ Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- ~~8-9.~~ 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.
- ~~9-10.~~ Ensure trends and emerging issues that could impact RIO are considered and communicated to the Executive Director and the SIB Audit Committee as appropriate.
- ~~10-11.~~ Ensure emerging trends and successful practices in internal auditing are considered.
- ~~11-12.~~ Establish and ensure adherence to policies and procedures designed to guide the internal audit division.
- ~~12-13.~~ 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 the Executive Director and the SIB Audit Committee.
- ~~13-14.~~ 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 ~~s~~Supervisor of ~~i~~Internal ~~a~~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 to the best to their ability, even if the internal audit division also conforms with the more restrictive requirements of other authoritative bodies.

~~VII-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 as referenced in the Internal Audit Manual.- This should include workpapers evidencing how work is planned and, scoped, the audit period, the sampling methodology, the preparer, the reviewer, and the test steps performed, and budgeted hours for each project should be budgeted. 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 ~~and the Chief Audit Executive~~ will monitor and document their oversight of the internal audit division's quality assurance and improvement program .The progress made, including internal assessments, will be communicate~~de~~ 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.

DATE INTERNAL AUDIT CHARTER ADOPTED AND APPROVED:

MEMORANDUM

TO: SIB Audit Committee
FROM: Sara Seiler, Supervisor of Internal Audit
DATE: August 8, 2024
RE: 2023 – 2024 Year End Audit Activities

Audit coverage was based on the July 1, 2023, through June 30, 2024, workplan approved by the SIB Audit Committee in May of 2023. The audit activities undertaken were consistent with the Internal Audit charter and goals, and the goals of the Retirement and Investment Office (RIO). Internal Audit effort was directed towards RIO's needs and the concerns of management and the SIB Audit Committee.

INTERNAL AUDIT ACTIVITIES:

- **Executive Limitation Audit**

AUDIT PLAN REQUIREMENTS: The Executive Director's compliance with the State Investment Board (SIB) Governance Manual Executive Limitation Policies A-1 through A-11 is reviewed on an annual basis. Each year, the Executive Director is evaluated via a survey administered to all staff members. Internal Audit (IA) also facilitates and compiles the annual SIB Executive Review and Compensation Committee survey administered to members of the SIB at the request of the SIB Executive Review and Compensation Committee (ERCC).

2023-2024 ACTUAL ACTIVITIES:

- The Executive Limitation Audit was completed and presented to the SIB Audit Committee on February 15, 2024.
- The Executive Director Survey was completed and reported to the ERCC on April 26, 2024.
- Survey's for the Chief Investment Officer and the Deputy Executive Director/Chief Retirement Officer were completed and reported to the ERCC on April 26, 2024.
- The SIB Client Survey was completed and reported to the SIB Board at the October 26, 2023 meeting.

- **SIB Self-Assessment**

AUDIT PLAN REQUIREMENTS: At the request of the ERCC, IA may be asked to administer and report the results of annual board self-assessment to the SIB.

2023-2024 ACTUAL ACTIVITIES:

- IA worked with the ERCC on administering the Board Self-Assessment Survey and reported the results to the SIB Board on February 23, 2024.

- **Internal Audit Maturity Development Process**

AUDIT PLAN REQUIREMENTS: Internal Audit had an internal audit business process review completed in the previous fiscal year. The process review evaluated the maturity of internal audit function modeled after the Institute of Internal Auditors (IIA) standards. The review was to show the current level of maturity of Internal Audit division and to provide a roadmap towards the future state on both a short and long-term basis. The Internal Audit division will be working to implement the recommendations made by Weaver. The

goals are set as short, mid, and long-term. Internal Audit will be working towards implementing the short and mid-term goals in the next fiscal year.

This project is a co-sourcing relationship with a consultant to complete the RIO risk assessment, internal audit manual, develop templates, and provide consulting services as needed to the Internal Audit Division. A proposed workplan and request for proposal for additional resources needed for the internal audit maturity development was presented to the Audit Committee at the November 14, 2023 meeting.

2023-2024 ACTUAL ACTIVITIES:

- A steering committee for the project was created in July 2023 consisting of the Executive Director, Chief Financial Officer/Chief Operating Officer, and the Supervisor of Internal Audit.
- The request for proposal was approved (RFP) at the November 2023 SIB Audit Committee meeting for a co-sourcing relationship with a consultant to complete the RIO risk assessment, internal audit manual, develop templates, and provide consulting services as needed to the internal audit division.
- A special SIB Audit Committee was held in January 2024 to select the consultant from the responses to the RFP. Weaver & Tidwell, LLP was selected. Projects to be completed were risk assessments for the investment and fiscal Divisions, an audit manual (compliance with new 2024 IIA Standards) – policies and procedures, and templates for reports and workpapers.
- The project kicked off in March 2024 with IA staff providing information and having weekly meetings that included the steering committee.
- The Supervisor of IA worked with Weaver and RIO staff to develop risk assessments for the fiscal and investment divisions.
- IA staff worked with RIO staff and management on a risk Assessment of the retirement services division.
- The following updates occurred with the Audit Charter: the annual review of the responsibilities (August 2023), the approved recommendations from the maturity assessment (November 2023), and the updated language to reflect the composition change on the SIB Board, aligned the language with the SIB Governance Manual updates, and to reflect the SIB Governance Manual oversight responsibilities (February 2024). The SIB Governance & Policy Review Committee and the SIB approved updated Audit Committee Charter and Internal Audit Charter in April 2024.
- At the May 2024 SIB Audit Committee meeting IA staff and Weaver both presented and update to the project.
- The fiscal and investment risk assessment was completed in June 2024.

• **Employee Exit Review**

AUDIT PLAN REQUIREMENTS: When a staff member discontinues employment at RIO, they have the option of an exit interview with the Supervisor of IA. The Supervisor of IA will do a post review of an employee's accounts if there is an abrupt resignation of an employee from employment.

2023-2024 ACTUAL ACTIVITIES:

- Two RIO staff members separated from employment in August and September of 2023, the Supervisor of IA offered exit interviews to both employees. RIO also had two interns during the fiscal year both were also offered exit interviews. A post review was not required for either exit interview.

• **RIO External Auditor Assistance**

AUDIT PLAN REQUIREMENTS: IA will assist the external auditor with a variety of tasks related to the annual financial audit of the RIO and the GASB 68 census data audit.

2023-2024 ACTUAL ACTIVITIES:

- IA assisted our external audit partners CLA, LLP during the 2022/23 financial audit of the RIO as well as the GASB 68 census data audit.
- IA assisted our new external audit partners UHY, LLP to start the 2023/24 financial audit as well as the GASB 68 census data audit.

- **RIO Administrative Manual - Consulting**

AUDIT PLAN REQUIREMENTS: The Deputy Executive Director/Chief Retirement Officer, Executive Assistant, and Supervisor of IA reviewed existing policies and recommended additional policies.

2023-2024 ACTUAL ACTIVITIES:

- RIO's administrative manual was reviewed and updated. This project was completed in January 2024.

- **RIO Onboarding and Offboarding Procedures**

AUDIT PLAN REQUIREMENTS: A working group consisting of Deputy Executive Director/Chief Retirement Officer, Chief Financial Officer/Chief Operating Officer, Supervisor of Internal Audit, Executive Assistant, and Contracts/Records Administrative Assistant reviewed and enhanced RIO's onboarding and offboarding procedures for staff and board members.

2023-2024 ACTUAL ACTIVITIES:

- An onboarding and offboarding procedure checklist were developed. This project was completed in July 2023.

- **RIO INTERNAL AUDIT RECORDS RETENTION**

AUDIT PLAN REQUIREMENTS: IA has a retention schedule for the audit files and records. Annually, the schedule is reviewed to determine if changes need to be made. Almost all the audit files and records are currently electronic and purged annually to comply with the schedule set by NDIT Records Management. IA maintains a table of contents for the information that describes the audit and what files are found on the audit drive.

2023 - 2024 ACTUAL ACTIVITIES:

- Purged 2017/18 fiscal year records in the IA drive in November 2023.
- Updated the IA drive table of contents.
- Prepared a report that listed records/size of records deleted and forwarded to the Procurement and Records Management Coordinator November 2023.
- Provided a list of 2022/23 IA records/reports to be added to the administrative drive maintained by the Procurement and Records Management Coordinator.

- **TFFR Participant Date Review/ Model 2 Partial Focus**

AUDIT PLAN REQUIREMENTS: This review will take a sample of one member from each business partner reporting to TFFR using Model 2 Partial. There are forty-one Model 2 Partial business partners. The primary purpose of salary reviews is to determine if the retirement salaries and contributions reported to TFFR by a participating business partner 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 for TFFR membership are also verified. This audit will help ensure the accuracy of the data for the conversion to the new pension administration system.

2023-2024 ACTUAL ACTIVITIES:

- IA completed fieldwork and communication with staff and business partners.
- IA met with Retirement Services on February 26, 2024.
- IA completed the audit documents, worksheets, and report.
- The final report was issued April 22, 2024, and presented to the SIB Audit Committee at the May 15, 2024 Audit Committee Meeting.
- A response describing Retirement Service's response to the IA findings and recommendation was received in June 2024.

- **TFFR File Maintenance Audit**

AUDIT PLAN REQUIREMENTS: On an annual basis, IA will review system generated (CPAS) audit tables to ensure transactions initiated by staff are expected and appropriate given an individual's role within the organization. Member account information from member action forms, address change forms, and direct deposit authorization forms will be reviewed to verify that contact and demographic information has been updated correctly.

2023-2024 ACTUAL ACTIVITIES:

- Audit planning and notification to staff was completed in April/May of 2024. Fieldwork was started in June 2024. This audit is still in progress. A sample of deaths, disabilities, purchases, refunds, and retirements will also be reviewed.

- **TFFR Pioneer Project**

- **AUDIT PLAN REQUIREMENTS:** Internal Audit staff participates in the design, elaboration, and testing meetings/sessions of the Pioneer Project. RIO is expected to "go live" at the end of calendar year 2024.

2023-2024 ACTUAL ACTIVITIES:

- IA staff participated in elaboration meetings for the following processes: accounting, issuing checks-ACH processes for members and business partners, benefit payroll, deaths before retirement, deaths after retirements, documents, disabilities, DPI Interface, ECM-FileNet conversion, Business Partner reporting and portal, ESPB file-interface, member portal, business partners paycodes, QDROS, retirements, and withdrawals.
- IA staff attended training sessions for multiple business processes.
- User testing for Phase I was completed in May of 2024 and for Phase II started in June 2024. Staff continued to work on issues found in testing. User testing is expected to start for the business partners reporting to RIO in July of 2024.
- IA attended two education seminars presented by Retirement Services to business partners introducing the new pension administration system.
- IA attended weekly meetings reporting progress and addressing concerns.

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

AUDIT PLAN REQUIREMENTS: IA is a member of the Institute of Internal Auditors (IIA). IA is also a member of the Association of Public Pension Fund Auditors (APPFA).

2023 - 2024 ACTUAL ACTIVITIES:

- Attended all day RIO staff training: the Shocking Power of Kindness, Crucial Conversations, Teammate Traits Exercises (color System), Communication Channels and Policy Updates.
- Completed quarterly NDIT Cyber training -phishing, security awareness, and safe scanning with QR codes.
- Open Records/Open meetings,
- Fiduciary duties and ethics training,
- SIB Onboarding overview of RIO Fiscal Operations, SIB Governance Manual, Retirement Services, and Investment Risk.
- Completed annual virtual training for Risk Management/Workforce Safety Programs.
- Annual review of the RIO Office policies.

Administrative activities (non-audit related) including time reports, meeting attendance, general reporting, email, etc. were carried out in accordance with the approved audit plan in fiscal year 2023-2024.

COMMITTEE ACTION REQUESTED: Committee Acceptance.

MEMORANDUM

TO: State Investment Board (SIB)
FROM: SIB Audit Committee
DATE: August 9, 2024
RE: Fiscal Year End Audit Committee Activities
July 1, 2023 to June 30, 2024

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

The Audit Committee consists of five members selected by the SIB. Three members of the Audit Committee represent the three groups on the SIB (Teachers' Fund for Retirement (TFFR) Board, Public Employees Retirement System (PERS) Board, and elected and appointed officials). The other two members are selected from outside the SIB, that are both independent and financially literate. Members of the Audit Committee for the 2023 – 2024 fiscal year were:

Treasurer Thomas Beadle, Elected and Appointed Officials, Chair
Cody Mickelson, TFFR Board, Vice Chair
Adam Miller, PERS Board
Dina Cashman, External Member
Todd Van Orman, External Member

The Audit Committee held four regular meetings and two special meetings for the fiscal year ended June 30, 2024. The meetings occurred: August 2, 2023, November 14, 2023, January 18, 2024 (special), February 15, 2024, May 9, 2024, and June 21, 2024 (special).

Activities of the Audit Committee during the past year included:

- The Committee approved a July 1, 2023, through June 30, 2024, Internal Audit workplan. Progress was monitored on a quarterly basis. Audit activities included:
 - Executive Limitations Audit was completed. The audit determined the Executive Director's level of compliance with SIB Governance Manual Executive Limitation policies (A-1 through A-11) for the calendar year ending December 31, 2023. The audit report was presented to the SIB on February 15, 2024.
 - State Investment Board Self-Evaluation was administered by Internal Audit. The SIB requested Internal Audit's assistance in administering the self-evaluation and presenting the results. The SIB self-evaluation was presented at the February 23, 2024, SIB meeting.
 - Internal Audit Maturity Development Steering Committee – At the August 2023 meeting, the Audit Committee approved the development of a Steering Committee to implement the

recommendations of Weaver's maturity assessment for the Internal Audit Division. The Steering Committee consists of the Supervisor of Internal Audit, Executive Director, and Chief Financial Officer/Chief Operating Officer.

- Internal Audit Maturity Development Process Review – The Supervisor of Internal Audit developed a workplan for the Internal Audit Maturity Process that was presented and approved at the November 2023 Audit Committee meeting. The Supervisor of Internal Audit, Executive Director, and Chief Financial Officer/Chief Operating Officer developed a request for proposal (RFP) for additional resources needed to implement the recommendations. The SIB Audit Committee approved the RFP in Nov. 2023. Weaver was selected and kick off the project was in March 2024. Projects to be completed were a RIO risk assessment (fiscal and investment divisions), internal audit manual, and document templates.
- Audit Committee Charter - The annual review of the Audit Committee's responsibilities was completed in August 2023. In November 2023, the Audit Committee approved the proposed changes to the charter from the addressed recommendations from the internal audit process review. The Audit Committee also updated the Audit Committee Charter to align the language with the SIB Governance Manual, reflect the composition changes on the SIB Board, and to reflect the SIB Governance Manual outline oversight responsibilities in February 2024. The SIB Governance & Policy Review Committee and the SIB approved updated Audit Committee Charter and Internal Audit Charter in April 2024.
- Employee Exit Review – The Internal Audit Division conducted three exit interviews in August and September of 2023.
- RIO Onboarding and Offboarding Procedures – The Supervisor of IA is a committee member on developing onboarding and offboarding procedures. The group has been reviewing and enhancing RIO's current onboarding and offboarding procedures. Members of the working group are the Deputy Executive Director/Chief Retirement Officer, Chief Financial Officer/Chief Operating Officer, Executive Assistant, and Procurement and Records Management Coordinator. This project was completed in July 2023.
- TFFR File Maintenance Audit – Internal Audit will review system generated (CPAS) audit tables to ensure transactions initiated by staff are expected and appropriate given an individual's role with the organization. Member account information from Member Action Forms, Address Change Forms, and Direct Deposit Authorization Forms are reviewed to verify that contact and demographic information has been updated correctly. A sample of purchases, refunds, and deaths will be reviewed as part of the audit. The audit is in progress.
- TFFR Participant Data Review-Model 2 Partial Focus - This salary review focused on business partners that report to TFFR using Model 2 Partial. Internal Audit selected one participant from forty-one business partners to ensure model compliance. The review determined if the retirement salaries and contributions reported to TFFR by the participating employers were 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 for TFFR membership were also verified. The completed audit report was dated April 22, 2024, and was presented to the SIB Audit Committee at the May 2024 meeting.
- TFFR Pioneer Project – Internal Audit staff participated in the design, elaboration, training, and testing sessions of the Pioneer project. RIO is expected to "go live" at the end of calendar year 2024.
- Internal Audit worked with staff on reviewing and updating the Administrative Policy Manual. Policies were written and updated to ensure compliance with state and federal policies. RIO also adopted other federal and state policies as found on the ND State OMB website. This project was completed in January 2024.
- RIO's Internal Audit division assisted our external audit partners, CliftonLarsonAllen, LLP (CLA), during the 2022-2023 financial audit of the RIO as well as the GASB 68 Census Data Audit.
- RIO's Internal Audit division assisted our external audit partners, UHY, LLP, during the 2023-24 financial audit of RIO as well as the GASB 68 Census Data Audit.
- Supervisor of Internal Audit had presentations on Governance Overview and Internal Audit Overview as part of the SIB member onboarding process.
- Internal Audit staff continued to pursue networking and professional development opportunities via the IIA's local chapter and the APPFA (Association of Public Pension Fund for Auditors). Staff

attended all day RIO training, four quarters of NDIT training, open records/open meetings, Fiduciary duties and Ethics, onboarding sessions on Fiscal Accounting, Governance, Investment risk, and retirement, and annual training on RIO policies, Workforce Safety, and Risk Management.

- The Committee received the results of the RIO financial audit for the fiscal year ended June 30, 2023, from independent auditors, CliftonLarsonAllen, LLP at the November 2023 meeting. They issued an unmodified “clean” opinion.
- The Committee reviewed the RIO financial audit plan for the fiscal year ended June 30, 2024, with independent auditors, UHY, LLP at the June 2024 special Audit Committee meeting. Discussion included scope and approach for the audit to ensure complete coverage of financial information and GASB 68 Audit.
- The Committee adopted an interim audit workplan in May 2024 for the fiscal year 2024-25.

The above activities support the Committee’s fulfillment of its oversight responsibilities. Please inform the Committee if there are special audits or activities the Board would like to have reviewed.

COMMITTEE ACTION. Committee acceptance of report.

MEMORANDUM

TO: State Investment Board (SIB) Audit Committee
FROM: Sara Seiler, Supervisor of Internal Audit
DATE: August 14, 2024
RE: 2023 – 2024 Audit Charter Review of Responsibilities

The Audit Committee (Committee) Charter of the North Dakota State Investment Board requires that the Committee confirm annually the review of all responsibilities outlined in the Charter. To achieve these goals, the Committee requested an annual report which details the responsibilities contained in the Charter and documents activities undertaken by the Committee to meet those responsibilities.

The responsibilities contained in the Charter will appear in regular font, activities undertaken by the Committee to meet those responsibilities will appear in *italic font*.

RESPONSIBILITIES

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

- Internal and external audit programs
 - Includes financial and other reporting practices
- Internal controls
- Compliance with laws, regulations, and ethics

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.
 - *On June 21, 2024, members of the Committee met with representatives from RIO's independent audit firm, UHY, LLP. The July 1, 2023 to June 30, 2024 Fiscal Year Financial Audit and GASB 68 Audit proposed scope and approach was discussed. This included any applicable discussion related to developments in accounting principles or auditing standards that would have an effect on the financial statements or the audit.*
- Inquire as to any proposed changes in accounting or financial reporting procedures and of any unusual events that could impact the financial statements.
 - *On November 14, 2023, members of the Committee met with representatives from RIO's independent audit firm, CliftonLarsonAllen. RIO's Chief Financial Officer/Chief Operating Officer was also present. The Committee was provided the opportunity to engage all parties in discussions related to changes*

in accounting or financial reporting procedures and unusual events which could impact the financial statements.

- *On June 21, 2024, members of the Committee met with representatives from RIO's independent audit firm, UHY, LLP. RIO's Chief Financial Officer/Chief Operating Officer was also present. The Committee was provided the opportunity to engage all parties in discussions related to changes in accounting or financial reporting procedures and unusual events which could impact the financial statements.*
- Review the results of the financial statements report with the independent auditors and the RIO's management, prior to the release of the financial statements report to the SIB and other officials. This review will include the following, as applicable:
 - Any major problems encountered by the independent auditors and the resolution thereof;
 - The effect on the audit of any developments;
 - Any unresolved differences between the independent auditors and the RIO's management;
 - Any other significant comments or recommendations of the independent auditors or the RIO's management;
 - The adequacy of the RIO's internal accounting controls and accounting policies, procedures, and practices; and
 - Understand the scope of independent auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with the RIO's management responses.
- *On November 14, 2023, the Committee received, reviewed, and approved the June 30, 2023 Financial Audit Report of RIO. RIO's management and representatives of RIO's independent audit firm, CliftonLarsonAllen were present.*
- Consider the effectiveness of the RIO's internal control system, including information technology security and control.
 - *On November 14, 2023, members of the Committee met with RIO's management and representatives from RIO's independent audit firm, CliftonLarsonAllen. The Committee was provided the opportunity to engage in discussions with all parties related to RIO's internal control system, including information technology security and control.*
 - *On June 21, 2024, members of the Committee met with RIO's independent audit firm, UHY, LLP. The Committee was provided the opportunity to engage in discussions with all parties related to RIO's internal control system, including information technology security and control.*

Consider whether the financial statements are complete, consistent with information known to committee members, and reflect appropriate accounting principles. This will include the following, as applicable:

- The accuracy and completeness of the information in other sections of the annual report and related regulatory filings;
 - The significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements; and
 - All matters required to be communicated to the Committee under generally accepted auditing standards with the RIO's management and the independent auditors.
- *On November 14, 2023, the Committee received, reviewed, and approved the June 30, 2023 Financial Audit Report. RIO's management, representatives of RIO's independent audit firm, CliftonLarsonAllen, RIO's Chief Financial Officer/Chief Operating Officer, and Accounting Manager were available to assist the Committee in determining if financial statements were complete, consistent with information known to the Committee, and reflective of appropriate accounting principles.*

- Review non-audit services, if any, performed for the RIO by the independent auditors.
 - *RIO's independent audit firm, CliftonLarsonAllen, did not provide any non-audit services in fiscal year 2024.*

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*.
 - *Internal Audit provides individual audit reports, annual work plans, quarterly progress updates, and other information to the Committee which can be used to gauge the overall effectiveness of the division. Internal Audit is working towards compliance with the International Standards for the Professional Practice of Internal Auditing but is currently not in compliance with all standards.*
- Review with the Executive Director and the Supervisor of Internal Audit the audit charter, activities, staffing, and organizational structure of Internal Audit.
 - *The review of the audit charter by the Committee was completed on August 2, 2023. The Committee is provided an update regarding the activities of Internal Audit on a quarterly basis. With approval from the Committee, RIO management and Internal Audits' staff hired an outside consultant for the maturity of the internal audit function. The consultant assisted with the development of the risk assessment, internal audit manual, and internal audit templates.*
- Review and approve the annual risk-based audit work plan and all major changes to the plan.
 - *On May 15, 2024 the Committee approved an interim audit work plan as the formal risk assessment was being completed.*
- Bring to the attention of the Board any internal audit issues the Committee determines significant and appropriate for Board consideration.
 - *There were no internal audit issues the Committee needed to bring to the Board's attention.*
- Participate with the Executive Director in the appointment and annual evaluation of the Supervisor of 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.
 - *The annual evaluation for the Supervisor of Internal Audit for the review period beginning April 1, 2023 and ending March 31, 2024. No changes were made to Internal Audit staffing during fiscal year 2024. Salary increases for performance were given to both the Supervisor of Internal Audit and Internal Audit staff member.*

Risk Management

- Obtain information and/or training to enhance the Committee's understanding of the organization and its related risk management processes.
 - *The Committee received updates of agency activities.*
- Review the adequacy of the organization's policy on risk management.
 - *The Administrative Manual was revised during the fiscal year. RIO also participates in the risk management discount program which has all staff taking risk management training and inspections of the office to ensure safety.*

- Review the effectiveness of the organization's system for assessing, monitoring, and controlling significant risks or exposures.
 - *An audit plan was approved. As Internal Audit staff implements a more risk-based approach, the audits will be more focused on risks and exposures.*
- Review Management's reports on risks and related risk mitigations.
 - *Management responds to all audits and their response is reported to the Committee.*
- Hire outside experts and consultants in risk management, as necessary, subject to full board approval.
 - *Weaver was hired in FY 2024 to help develop a formal risk assessment and internal audit program manual. This was approved by the Audit Committee and reported to the full board.*

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.
 - *Audit staff notes, if any, recommendations, and findings in audits. Management responds to all audits and their response is reported to the Committee.*
- Review the process for communicating and monitoring compliance with the code of ethics, code of conduct, and fraud policies.
 - *Internal Audit staff reviews to ensure all staff signs and acknowledges the understanding with the code of ethics, code of conduct, and fraud policies. This is reviewed as part of the Executive Limitations Audit.*
- Review the findings of any examinations by regulatory agencies, any auditor observations related to compliance, and the responsiveness and timeliness of Management's actions to address the findings/recommendations.
 - *There were no findings/recommendations noted by the CLA.*
- Obtain updates from the RIO's Management and Legal Counsel regarding compliance matters, as deemed necessary.
 - *There was no recommendation on compliance matters from Legal Counsel.*

Reporting Responsibilities

- Report to the SIB about the Committee's activities, issues, and related recommendations.
 - *Reports regarding the activities, issues, and related recommendations of the Committee were provided to the SIB on August 24, 2023, November 17, 2023, February 23, 2024, and May 17, 2024.*
- Provide a written report annually to the SIB, describing the Committee's composition, responsibilities and how they were discharged, and any other information required.
 - *The annual written report was provided to the SIB on August 24, 2023, for fiscal year 2023.*

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.
 - *The State Auditor's Office selected UHY, LLP as RIO's independent auditors for a one-year contract. There was no need for any other communication with the North Dakota State Auditor's Office.*
- 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.
 - *The Committee received information from UHY, LLP at the June 21, 2024, meeting on the external audit/internal audit relationship. UHY, LLP presentation included their approach and scope relating to the independent audit.*
- Serve as an open avenue of communication among the SIB, the RIO's Management and Internal Audit, the independent auditors, and others.
 - *RIO's management, Internal Audit staff, and members of the SIB (who serve on the Committee) are present at all regularly scheduled meetings of the Committee. RIO's independent auditors are present at regularly scheduled meetings of the Committee on two occasions during the fiscal year. The Supervisor Internal Audit routinely communicates with the SIB during their regularly scheduled meetings. This arrangement fosters an open avenue of communication among the parties.*
- Serve as an appropriate confidential body for individuals to provide information on potentially fraudulent financial reporting or breaches of internal control.
 - *RIO has an anonymous fraud hotline. The Executive Director, Supervisor of Internal Audit, and Audit Committee's Chair are listed as the primary recipients of reported incidents of fraudulent financial reporting or breaches of internal control. The Committee is also available to receive such reports should an individual choose not to use the fraud hotline provided by RIO. There were no incidents reported.*
- Inquire of Management and Internal Audit regarding the procedures in place for the prevention of illegal payments, conflicts of interest, or other questionable practices.
 - *The Committee is welcome to inquire to Management and Internal Audit regarding the procedures in place for the prevention of illegal payments, conflicts of interest, or other questionable practices whenever deemed necessary. At this time, Internal Audit is not aware of any inquiries made by or concerns of the Committee regarding these matters.*
- Perform other activities related to this charter as requested by the SIB.
 - *No requests from the SIB were made in fiscal year 2024.*
- Institute and oversee special investigations as needed.
 - *No special investigations were instituted or needed during fiscal year 2024.*
- Review any other reports the RIO issues that relates to the Committee's responsibilities.
 - *Internal Audit is aware of no other reports issued during fiscal year 2024 which relate to the Committee's responsibilities.*
- Review and assess the adequacy of the Committee charter annually, requesting the SIB approval for proposed changes.

- *On February 15, 2024, the Audit Committee approved updates to the Audit Committee Charter. On April 26, 2024, the State Investment Board approved the changes to the Audit Committee Charter.*
- Confirm annually the review of all responsibilities outlined in this charter.
 - *On August 2, 2023, the Committee reviewed the responsibilities of the charter.*

MEMORANDUM

TO: SIB Audit Committee
FROM: Sara Seiler, Supervisor of Internal Audit
DATE: August 14, 2024
RE: 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

- Model 2 Partial Salary Review – Phase 5
- TFFR File Maintenance Audit – Phase 2
- Pioneer – Pension Administration Software – User Acceptance Testing (UAT) of the system in progress.
- Executive Limitations – Phase 1

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 State Investment Board and Teachers Fund for Retirement board meetings.

The Supervisor of Internal Audit gave a presentation on an Internal Audit Overview as part of the State Investment Board onboarding process on July 17, 2024.

IA staff attended meetings on the fiscal year-end activities. The meetings ensure coordination among the RIO Divisions for the upcoming 2023/24 audit activities. The Supervisor of IA also attended a special kickoff meeting with UHY, LLP on June 5, 2024. UHY was onsite at RIO conducting fieldwork in June of 2024 and will return the last week of August of 2024 to complete fieldwork. IA is providing assistance during the 2023/24 financial audit of the RIO as well as the GASB 68 census data audit.

Internal audit staff has been working with Weaver on the risk assessment for the fiscal and investment divisions. The risk assessment was completed in June 2024. Internal audit staff has been working on the retirement risk assessment. A draft of the internal audit manual was received in

August 2024 and staff is currently reviewing the manual. Weekly meetings were held with Weaver with the Supervisor of Internal Audit, Executive Director, Chief Investment Officer, and Chief Financial Officer/Chief Operating Officer attending.

TFFR Activities

Since the May Audit Committee meeting, IA staff has attended PAS sessions on the following processes: ESPB file-interface, QDROS, Documents, Weekly meetings, Withdrawals-Refunds, Retirements, Deaths, Rollovers-Payroll, Disabilities, DPI interface, and ECM/FileNet conversion. Phase 2 of UAT testing started in June 2024. Phase 3 of UAT testing is scheduled to begin in July 2024 with the Employer Reporting Module.

The Supervisor of IA provided an article for the quarterly TFFR Briefly to the business partners. The article provided information on documentation the external auditors would be requesting for the GASB 68 audit.

For the TFFR File Maintenance Audit, the Internal Auditor is reviewing transactions found on the CPAS Table reports for fiscal and retirement services staff members.

Upcoming Audit Activities

IA continues to provide assistance to our external audit partners, UHY, LLP, during the financial audit of the RIO as well as the GASB 68 census data audits. UHY will be onsite for the audit fieldwork the last week of August 2024.

The investment compliance program is currently being developed through Weaver. Internal audit will be in an advisory role as policies and procedures are being developed.

The Internal Auditor will continue Phase 2 for the TFFR File Maintenance Audit by reviewing transactions on the staff table reports.

For the Pension Administration System, Phase 3 UAT testing on the Employer Reporting Module will continue. The three vendors that provide software to the Business Partners are finalizing their integration design so that software can interface with RIO's new system. RIO is expected to "go live" in December due to vendor development delays.

Continued planning will be occurring in the upcoming months for the Supervisor of Internal Audit leave of absence. Supervisor of Internal Audit is working with internal audit staff and the Executive Director to ensure proper coverage.

Internal audit staff, along with the Executive Director and Chief Financial Officer/Chief Operating Officer will be developing an RFP to be presented at the November 2024 Audit Committee meeting for additional resources for internal audit.

The Internal Audit staff will continue to do quarterly reconciliations for the Executive Limitations Audit. With the update to the governance manual and all the changes occurring at RIO, this change ensures that throughout the year nothing will be missed as part of the Executive Limitations Audit. The final report will still be issued in February 2025.

COMMITTEE ACTION REQUESTED: Committee Acceptance.

To: Sara Sauter, Internal Audit Supervisor
From: Chad Roberts, DED/CRO
Date: June 3, 2024
Re: Response to Model 2 Partial review report dated April 22, 2024

After reviewing the Model 2 Partial review report provided by Internal Audit dated April 22, 2024, there are two recommendations for alleviating risk and one recommendation for a process improvement. This letter addresses those recommendations and the steps and timeframe the RIO Retirement Services Division will utilize to address those three recommendations.

Recommendation #1: Investigate the discrepancies and contact the six employers that had records which appear to not be following their elected employer model to ensure that the errors found are not systemic affecting other members.

Response: The Retirement Services Division will conduct a full review of the six model 2 employers that had an employee identified by Internal Audit as having reported salaries not in compliance with the percentage with employer payment plan selection for the FY2020/2021 period.

Upon completion of the review, Retirement Services Division will review the employer payment plan selection of those same six employers for the FY2021/2022 and FY2022/2023 periods and review a sample of employees from those employers for each of those periods to provide assurance those employers have corrected the reporting issues in subsequent years. In the event additional discrepancies are found in those fiscal years, the Retirement Services Division will conduct a full review of all employees for those fiscal years.

Recommendation #2: There are six member accounts recommended for salary corrections due to the material dollar amount of the discrepancy. IA recommends that Retirement Services (RS's) investigate the discrepancies and contact the employers to ensure that the errors found are not systemic affecting other members. One ineligible member without a license issued by the Education Standards and Practices Board was reported to TFFR.

Response: The Retirement Services Division will work with the employers to correct the salary discrepancies including the ineligible salaries reported and the salaries reported in the wrong fiscal years. Additionally, the Retirement Services Division will do a compliance review of all current employees from the six identified employers to ensure that all the employees are licensed with the North Dakota Department of Public Instruction.

Recommendation #3: It is recommended for the 2024/25 fiscal year that Retirement Services (RS's) request the Employment Payment form and a copy of the current negotiated agreement from the 204 employers to confirm the reporting model. This would ensure that the correct model information would be transferred to the new pension administration system in 2024.

Response: The Retirement Services Division will review all employer payment plan selections for all employers and reconcile against all employment agreements prior to the cutover to the new pension administration system to provide assurance that the payment plans selected match the employment agreements.

The review of all employee salaries for the six identified employers with salary discrepancies will be completed by December 31, 2024.

The FY2022/2023 and FY2023/2024 review of the employee samples from the six employers identified as having employees with salary discrepancies will be conducted by October 1, 2024. If it is determined a full review of all employees from those six employers is necessary, the review will be completed by December 31, 2024.

The corrections to the employee salaries and the reporting of those salaries will be completed by December 31, 2024.

The Retirement Services Division review of all employee payment plan selections will be conducted prior to September 1, 2024.

A review of employee licensure for the six identified employers will be completed by October 1, 2024.

It is our expectation that most of the identified issues from this audit will be corrected with the implementation of the new pension administration system in the Fall of 2024. In the new system, employers must select and affirm their employer payment plan selection by June 30th of each year. Even if an employer does not change model selections, they must affirm in the system the plan they are currently using will be the plan they use in the coming fiscal year. Additionally, the system has calculation validations built in to verify the amounts contributed reconcile to the employer payment plan selected. In the event the contributions do not satisfy the validation, the employer is not able to submit a contribution report until the validations are successful.

An additional validation that the new system will perform is the validation of current licensure by the Department of Public Instruction. This validation occurs monthly as each employer uploads their enrollment and contribution reports. The new pension administration system will compare the information provided by the employer on each reported employee to a database provided by the Department of Public Instruction, if a reported employee does not have a valid license the employer will be prevented from completing the reporting process until the error is corrected.

It is the expectation that these types of discrepancies will be substantially avoided in the future due to the control and validations provided by the new software.

Respectfully,



Chad R. Roberts, Deputy Executive Director/Chief Retirement Officer

ND STATE INVESTMENT BOARD

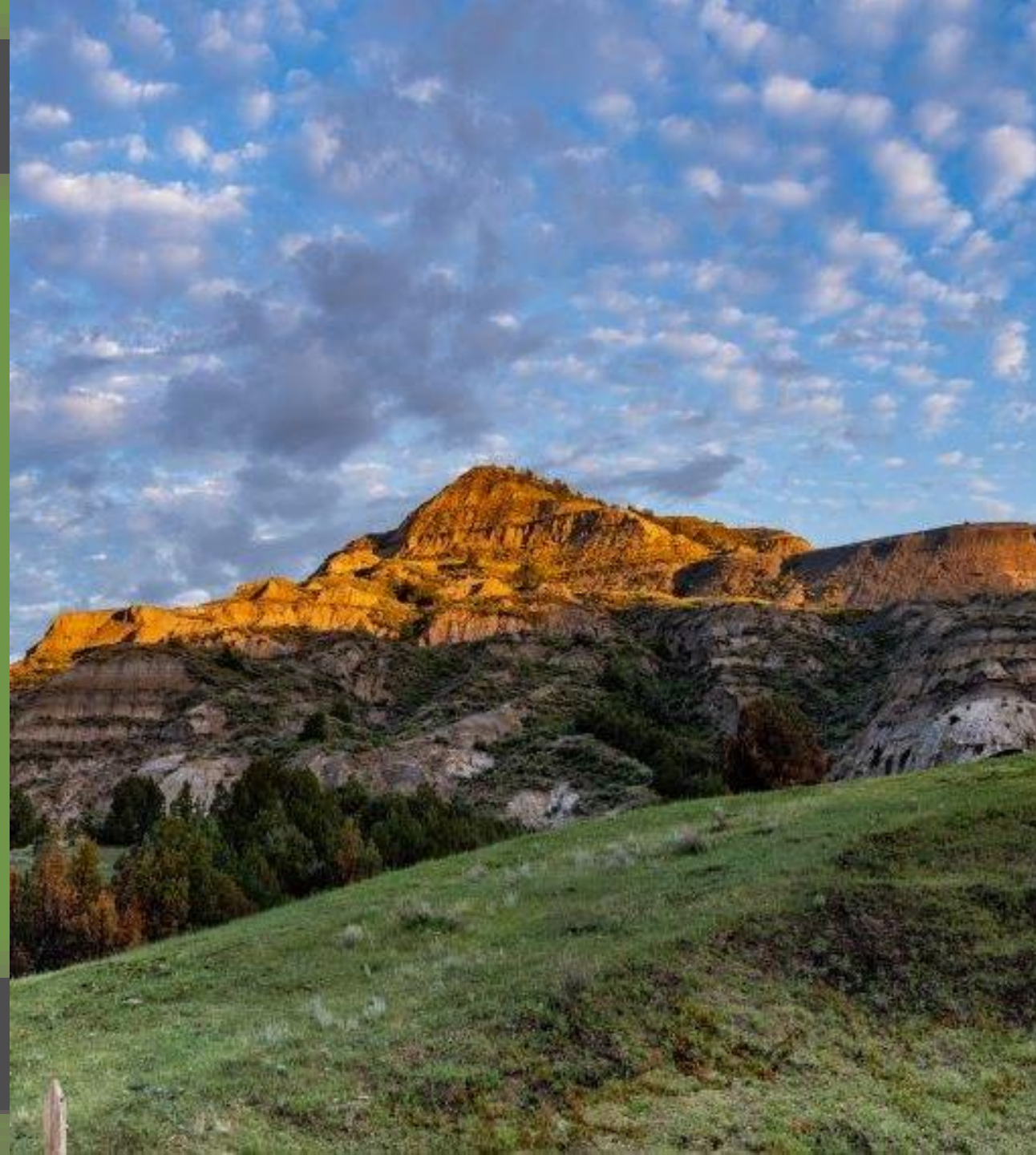
Retirement & Investment Office
New Board Member Onboarding

Internal Audit Overview

Presented by:

Sara Seiler – Supervisor of Internal Audit

July 17, 2024



AUDIT COMMITTEE ESTABLISHMENT

- Established by the State Investment Board
 - Assist in the SIB oversight responsibilities as they relate to RIO internal and external audit programs
 - Includes financial practices, internal controls, compliance with laws, regulations, and ethics.
 - The primary objective of the internal audit function is to assist the SIB with management in the effective discharge of their responsibilities.

- The Audit Committee is authorized to provide oversight to the Internal Audit function and the independent audit for RIO.
- The Committee may investigate any activity of RIO and may retain persons as necessary from within or outside RIO having special competence to assist the Committee in the accomplishment of its responsibilities.
- Serve as a communication link between SIB, RIO's management, independent auditors and others.
- Consist of five members: three members from the SIB and two members selected from outside of the SIB and RIO.

AUDIT COMMITTEE OVERSIGHT

TONE AT THE TOP

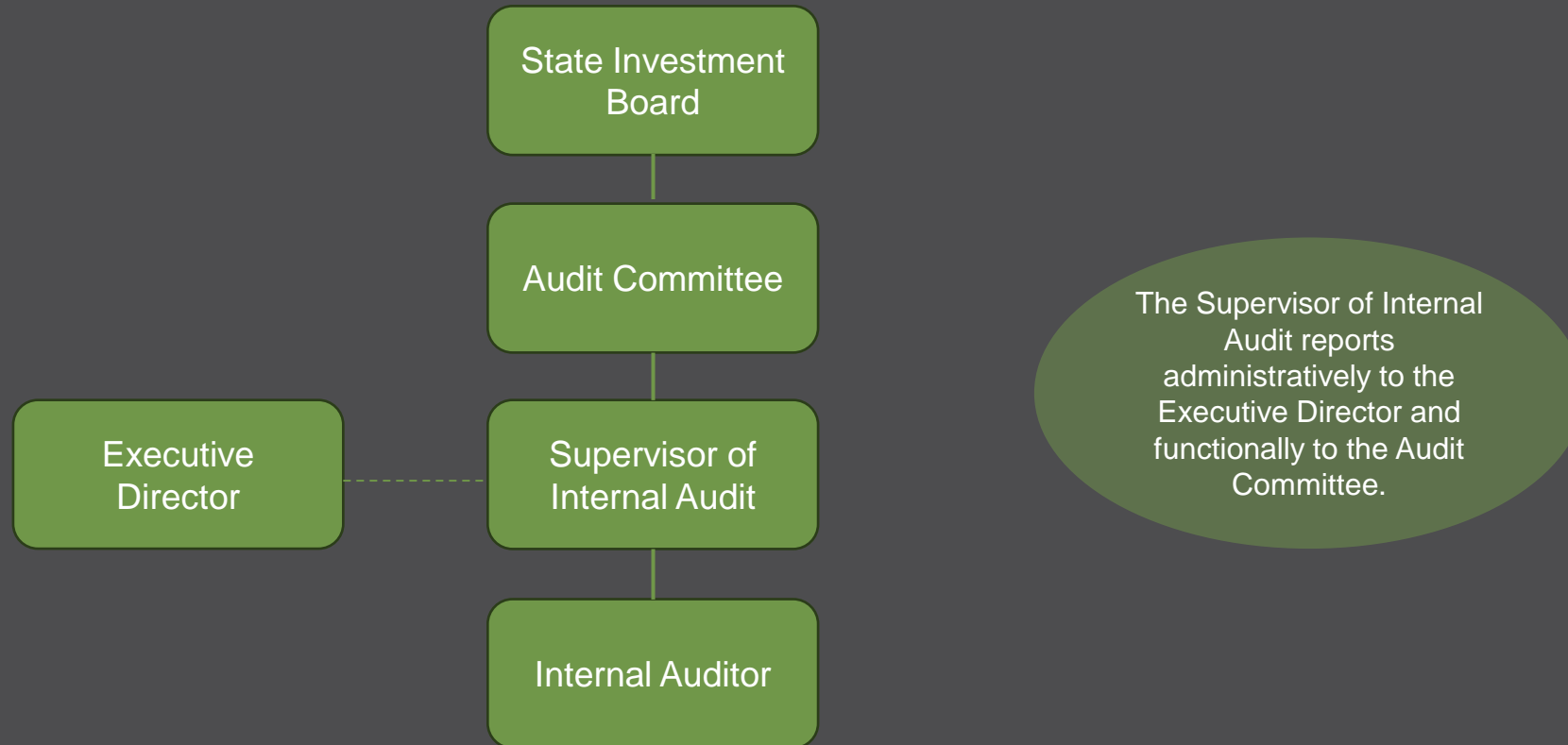
Sets the agency's guiding values and ethical climate.

Provides the foundation for the effectiveness of the internal audit function.

There is a trickle-down effect from the board, to the committees, to management, to staff.



INTERNAL AUDIT STRUCTURE AT RIO



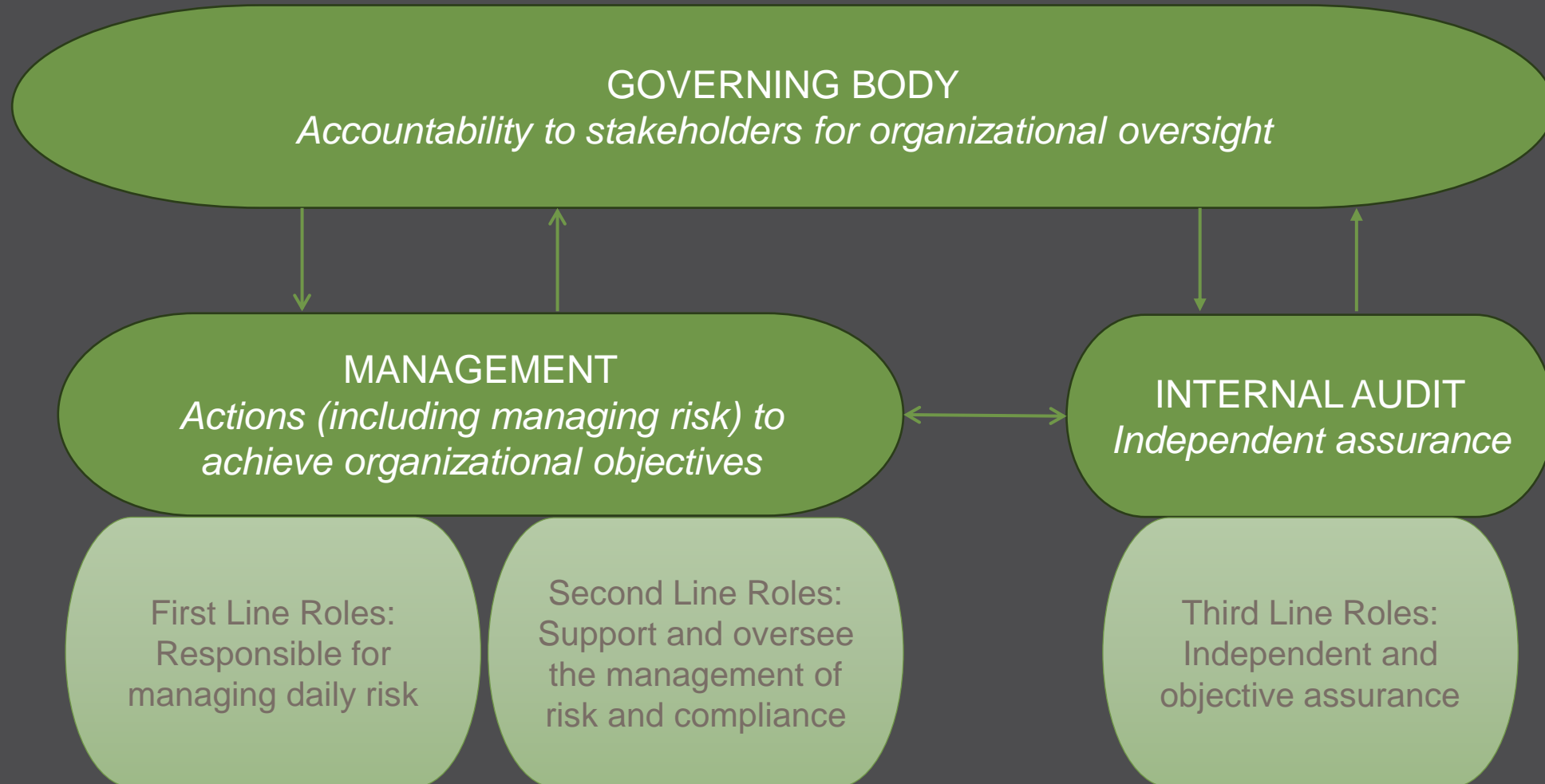
STAFFING AND RESOURCES

Currently there are two full-time audit staff.

Additional resources are needed due to the growth and complexity of operations at RIO

- Additional staff
- Additional training
- External assistance (outsourcing and co-sourcing)
- Data analytics

THREE LINES MODEL



TYPES OF AUDITORS

External Auditors

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

Internal Auditors

- **Employed by organization**
- **Broad Focus**
- **Backwards and Forward Looking**
- **Recommendations (value-add)**

Regulatory Auditors

- **From a government agency**
- **Ensure compliance with regulations**
- **Issues report**
- **Findings can result penalties or fines.**

INTERNAL AUDIT'S PURPOSE

- Independent and objective
- Assurance
- Advisory
- Enhances the organization
 - Governance, risk management, and control processes
 - Decision-making and oversight
 - Reputation and creditability



The Institute of Internal Auditors



Provides detailed approaches, step-by-step processes, and examples on subjects including:

- Assurance and advisory services
- Engagement planning, performance, and communication
- Fraud and other pervasive risks
- Strategy and management of the internal audit function
- Sustainability

Global Internal Audit Standards

RISK-BASED AUDITING

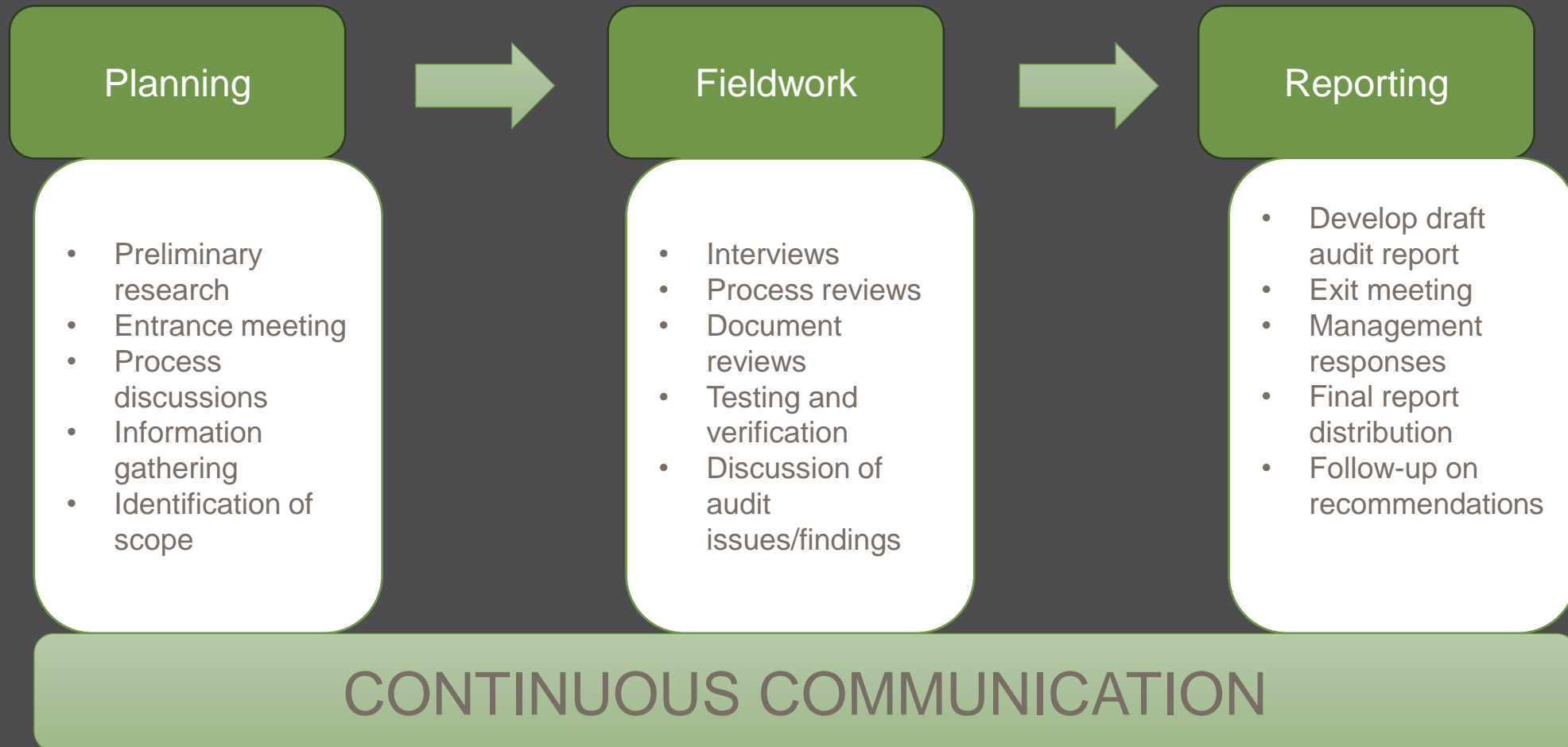
Risk Assessment

- Purpose is to identify significant risks in an agency
- Review of each division's processes and subprocesses
- Likelihood and impact
- Risk-profile
- Risk-based audit plan



Risk Assessment				
Severity	Disaster	High	Medium	Minimal
Probability				
Regularly	Critical	Critical	High	Medium
Probable	Critical	High	Medium	Low
Occasional	Critical	High	Medium	Low
Barely	High	Medium	Medium	Low

AUDIT PROCESS



FRAUD HOTLINE

Administered through Eide
Bailly

Alerts

- Audit Committee Chair
- Executive Director
- Supervisor of Internal Audit



866.91.ALERT

N O R T H
Dakota
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