

STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
SEPTEMBER 23, 2016, MEETING

COMMITTEE MEMBERS PRESENT: Rebecca Dorwart, Chair
Mike Gessner, TFFR Board
Mike Sandal, PERS Board
Cindy Ternes, Workforce Safety & Insurance
Josh Wiens, External Representative

STAFF PRESENT: Bonnie Heit, Assist to the Audit Committee
David Hunter, ED/CIO
Fay Kopp, Dep ED/CRO
Terra Miller Bowley, Suprv Audit Services
Cody Schmidt, Compliance Officer
Dottie Thorsen, Internal Auditor

CALL TO ORDER:

Ms. Dorwart called the State Investment Board (SIB) Audit Committee meeting to order at 12:52 p.m., on Friday, September 23, 2016, at the State Capitol, Peace Garden Room, Bismarck, ND.

A quorum was present for the purpose of conducting business.

The Committee welcomed Mr. Josh Wiens. Mr. Wiens will serve as an independent participant on the Committee. Mr. Wiens is a CPA who currently serves as Chief Financial Officer for Shiloh Christian School and McDonalds of Bismarck/Mandan.

AGENDA:

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO APPROVE THE AGENDA FOR THE SEPTEMBER 23, 2016, MEETING AS DISTRIBUTED.

AYES: MR. SANDAL, MS. TERNES, MR. WIENS, MR. GESSNER, AND MS. DORWART
NAYS: NONE
MOTION CARRIED

MINUTES:

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE MAY 19, 2016, MINUTES AS DISTRIBUTED.

AYES: MR. GESSNER, MR. SANDAL, MS. TERNES, MR. WIENS, AND MS. DORWART
NAYS: NONE
MOTION CARRIED

ELECTION OF OFFICERS:

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MS. TERNES AND CARRIED BY A ROLL CALL VOTE TO CONTINUE WITH THE CURRENT SLATE OF OFFICERS: MS. DORWART, CHAIR, MR. GESSNER, VICE CHAIR/LIAISON, FOR THE PERIOD OF JULY 1, 2016 - JUNE 30, 2017.

AYES: MS. TERNES, MR. WIENS, MR. SANDAL, MR. GESSNER, AND MS. DORWART
 NAYS: NONE
 MOTION CARRIED

CODE OF CONDUCT:

Mr. Schmidt reviewed the SIB Board Members' Code of Conduct Policy B-8, which details the code of ethical responsibility applicable to members of the SIB. The SIB is required to affirm their understanding of the policy on an annual basis. As a standing committee of the SIB, the SIB Audit Committee is required to adhere to any applicable policies contained within the SIB Governance Manual. Committee members were advised to affirm their understanding of the policy by signing and returning the acknowledgment to Mr. Schmidt.

AUDIT REPORT - YEAR END:

Ms. Miller Bowley reviewed activities of the Audit Division for the period of July 1, 2015 - June 30, 2016.

A total of 22 employer audits were completed (21 Compliance and 1 Not in Compliance). Nine employer audits were in progress at fiscal year-end, which included two employers from the third audit cycle and seven from the fourth audit cycle. Seven audits in the fourth audit cycle were pending along with audit information from three employers who had been notified of an upcoming audit. A total of 25 employers received audit notifications.

The Audit Division completed the following audits - Benefits Payments Audit, Teachers' Fund for Retirement (TFFR) File Maintenance Audit, Annual Salary Verification Project, and Executive Limitation Audit.

The Audit Division was not able to complete work on the following audits - Regional Education Association Audits, Investment Performance Summary Review, Schedule of Investment Fees Review, and Investment Management Fees Review. The hours allocated to these audits were reallocated to other audit activities that were of higher importance.

Ms. Miller Bowley stated the TFFR Cost Effective Benefit Payments/Benefit Recalculation Audit is currently in progress.

The Audit Division also assisted the external auditors, CliftonLarsonAllen, during the current financial audit of RIO along with the GASB census data audits.

The Audit Division in conjunction with the Retirement Division created an internship program. The internship program ran from May 16 - August 19, 2016. Ms. Miller Bowley stated the internship program went very well and would definitely recommend future programs.

The Audit Division continues to make progress on their procedures manual.

Staff also attends local Institute of Internal Audit (IIA) meetings as well as regional conferences and other misc. seminars and webinars. Ms. Miller Bowley is pursuing a Certified Internal Auditor designation.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. WIENS TO APPROVE THE 2015-16 AUDIT ACTIVITIES REPORT.

AYES: MR. SANDAL, MS. TERNES, MR. WIENS, MR. GESSNER, AND MS. DORWART
 NAYS: NONE
 MOTION CARRIED

AUDIT REPORT - SIB:

Ms. Miller Bowley reviewed the annual report to the SIB, which will be on their October 28, 2016, agenda. The Committee requested language be added to the report regarding the process taken when employers are not in compliance.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. GESSNER AND CARRIED BY A VOICE VOTE TO APPROVE THE ANNUAL REPORT TO THE SIB.

AYES: MR. GESSNER, MR. WIENS, MR. SANDAL, MS. TERNES, AND MS. DORWART
 NAYS: NONE
 MOTION CARRIED

AUDIT REPORT - FIRST QUARTER:

Ms. Miller Bowley reviewed Audit Services activities from July 1 - August 26, 2016. Five employer audits had been completed, nine were in progress, five were pending and not yet started, and one special audit on Parshall was in progress. RIO personnel had concerns regarding the accuracy of reporting from Parshall following the completion of an employer audit in June 2016 and year-end closing activities. The audit will conclude as soon as possible in an effort to correct current and future reporting errors.

As of September 23, 2016, an additional five employer audits had been completed. The Audit Division is in the process of completing third cycle audits of Ft. Totten and White Shield Public School Districts.

Ms. Miller Bowley also indicated staff will be conducting a 100 percent audit on Ft. Yates Public School for the 2013-14, 2014-15 and 2015-16 school years. Ft. Yates was able to close the 2015-16 school year but because of reporting discrepancies, items remain outstanding. There are 35 employees and Audit Services estimates it will take a full year to complete the audit.

Discussion took place on verification of retirement salaries.

Ms. Miller Bowley stated Williston, Minnewaukan, and McClusky will receive audit notifications next week as the Employers' status has been Not In Compliance for some time.

Discussion took place on the support and education available to the Employers and in particular to the Business Managers.

The Benefits Payment Audit for 2015-16 was completed on August 26, 2016. No findings were noted but two recommendations for future actions were provided.

The TFFR Cost Effective Benefit Payments/Benefit Recalculation Audit is underway and will be completed in fiscal year 2017.

The SIB customer satisfaction survey was facilitated in July 2016 and the results will be provided to the SIB at their October 28, 2016, meeting.

Audit Services is providing support to CliftonLarsonAllen for the 2016 financial audit of RIO. Audit Services notified 17 employers of upcoming GASB 68 Census Data audits in August 2016. The GASB 68 Census Data audits are currently underway and requests for supporting documentation have been sent to selected employers.

The internship program concluded on August 19, 2016. Primarily the Supervisor of Audit Services along with the Retirement Program Manager gave support and assistance to the intern.

Ms. Miller Bowley has also been assisting RIO personnel and the TFFR Board with special projects, e.g. the retiree substitute teaching issue.

Ms. Miller Bowley completed the requirement for a Certified Internal Auditor (CIA) designation in July 2016.

The Audit Committee congratulated Ms. Miller Bowley on her designation and the progress made by both members of the Audit Division.

OTHER:

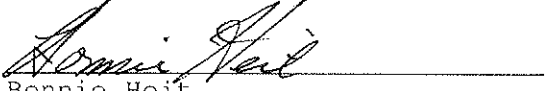
The next Audit Committee meeting is scheduled for Thursday, November 17, 2016, at 3:00 pm at Workforce Safety and Insurance, 1600 E Century Ave, Bismarck, ND.

With no further business to come before the Audit Committee, Ms. Dorwart adjourned the meeting at 1:50 p.m.

Respectfully Submitted:



Ms. Rebecca Dorwart, Chair
SIB Audit Committee



Bonnie Heit
Assistant to the Audit Committee