

**STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
NOVEMBER 15, 2018 MEETING**

COMMITTEE MEMBERS PRESENT: Yvonne Smith, PERS Board, Chair
Rob Lech, TFFR Board, Vice Chair
Jon Griffin, External Representative
Cindy Ternes, Workforce Safety & Insurance
Josh Wiens, External Representative

STAFF PRESENT: Connie Flanagan, Chief Financial Officer
Bonnie Heit, Asst to the Audit Committee
David Hunter, ED/CIO
Fay Kopp, Dep ED/CRO
Sara Sauter, Audit Svs Suprv
Shelly Schumacher, Retirement Program Manager
Dottie Thorsen, Internal Auditor

GUEST: Anders Odegaard, Attorney General's Office
Tonia Wildasin, CliftonLarsonAllen

CALL TO ORDER:

Ms. Smith called the State Investment Board (SIB) Audit Committee meeting to order at 2:57 p.m. on Thursday, November 15, 2018, at the Retirement and Investment Office (RIO), 3442 E Century Ave., Bismarck, ND.

A quorum was present for conducting business.

AGENDA:

The agenda was revised to address Agenda Item 4. (Investment Due Diligence) before the CliftonLarsonAllen (CLA) presentation. CLA was delayed due to the weather.

IT WAS MOVED BY DR. LECH AND SECONDED BY MR. WIENS AND CARRIED BY A VOICE VOTE TO APPROVE THE REVISED AGENDA FOR THE NOVEMBER 15, 2018, MEETING AS DISTRIBUTED.

AYES: DR. LECH, MR. WIENS, MR. GRIFFIN, AND MS. SMITH

NAYS: NONE

MOTION CARRIED

ABSENT: MS. TERNES

MINUTES:

IT WAS MOVED BY DR. LECH AND SECONDED BY MR. GRIFFIN AND CARRIED BY A VOICE VOTE TO ACCEPT THE SEPTEMBER 27, 2018, MINUTES.

AYES: MR. GRIFFIN, DR. LECH, MR. WIENS, AND MS. SMITH

NAYS: NONE

MOTION CARRIED

ABSENT: MS. TERNES

INVESTMENT DUE DILIGENCE:

Ms. Ternes entered the meeting.

Due to recent changes to RIO's audit plan which includes an increased focus on the investment program, Mr. Hunter provided an educational segment on 1) regular monitoring of SIB client "Investment Ends"; and 2) the investment manager due diligence process.

CLIFTONLARSONALLEN:

Ms. Tonia Wildasin, CLA, reviewed the results of the June 30, 2018, financial audit report of RIO. CLA issued an unmodified "clean" opinion that the financial statements were presented fairly, in all material respects, in conformity with US Generally Accepted Accounting Principles (GAAP).

Ms. Wildasin also provided an update on the GASB 68 Schedule Audit. The employer census testing is complete. Eleven separate employers were tested for individual employee census data. CLA expects to issue the final report on the schedules by the end of 2018.

IT WAS MOVED BY MS. TERNES AND SECONDED BY DR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE RESULTS OF THE CLA JUNE 30, 2018, FINANCIAL AUDIT REPORT OF RIO.

AYES: MS. TERNES, MR. WIENS, DR. LECH, MR. GRIFFIN, AND MS. SMITH

NAYS: NONE

MOTION CARRIED

AUDIT ACTIVITIES REPORT:

Ms. Sauter reviewed the Internal Audit Division's year end activities report for the period of July 1, 2018 through September 30, 2018.

One employer audit had been completed, two were in progress, and three were pending but not yet started.

As part of the Executive Limitation Audit, the SIB customer satisfaction survey was completed. The results were provided to the SIB at their October 26, 2018 meeting.

Internal Audit provided assistance to CLA during the FY2018 financial audit of RIO as well as the GASB 68 census data audits.

A formal agency risk assessment of RIO was completed.

Audit Services continued its participation with the Institute of Internal Auditors (IIA) Central NoDak Chapter as well as other entities for continuing education.

Discussion followed on the employer audits. In the revised work plan, which was approved by the Audit Committee at their September 27, 2018, meeting, the top ten employer audits will be completed on a 5-year cycle and this will entail 52 percent of the active membership. The next 50 employers will be audited on a 7-year cycle which will include 23 percent of the active membership for a total of 75 percent of active members being reviewed on a cycle. The remaining 25 percent of employers will be included in the salary verification audit sample on a 3-year cycle. Employer audits expected to be completed each year with the revised work plan is approximately 8-10 whereas past work plans included a completion total of approximately 25. Ms. Sauter stated the new approach provides sufficient coverage but at a different approach.

After discussion,

IT WAS MOVED BY MR. WIENS AND SECONDED BY MR. GRIFFIN AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE FIRST QUARTER INTERNAL AUDIT ACTIVITIES REPORT FOR THE PERIOD OF JULY 1, 2018 - SEPTEMBER 30, 2018.

AYES: MR. GRIFFIN, MR. WIENS, DR. LECH, MS. TERNES, AND MS. SMITH

NAYS: NONE

MOTION CARRIED

EMPLOYER AUDIT REPORTS:

Ms. Sauter and Ms. Thorsen met with RIO's legal counsel, Mr. Anders Odegaard, to review the current practices of RIO regarding the issuance of TFFR final Employer Audit Reports. Currently, TFFR final Employer Audit Reports are issued by Internal Audit Services to the Employer Superintendent and Business Manager. Mr. Odegaard, after reviewing the SIB Governance Manual and state statute, recommended the following:

"Audit Services should no longer be communicating its findings to entities that submit compliance reports for TFFR purposes. Audit Services should instead forward its findings to Retirement Services (the administrative unit of the TFFR Board). Retirement Services can then incorporate its conclusions pursuant to its delegated authority (subject to board review, appeal, and administrative remedies) and communicate directly with those respective entities aforementioned. The process will preserve the integrity of the internal audit as organized and designed under the SIB pursuant to the law."

Discussion followed on transitioning the current practice from Internal Audit Services to Retirement Services. Past practice, the reports were sent to the Employer Superintendent and Business Manager. The reports will continue to come before the Audit Committee as part of Internal Audit Services quarterly report to the Audit Committee. After discussion, it was concluded that Retirement Services and Internal Audit Services will coordinate the transitioning of the issuance of the TFFR final Employer Audit Reports from Internal Audit Services to Retirement Services as recommended by legal counsel. The Internal Audit Services division will no longer be issuing compliance opinions on TFFR final Employer Audit Reports and that the responsibility will now be overseen by Retirement Services per state statute. The Audit Committee did not take any action as they felt this was an administrative matter which should be managed internally by RIO personnel.

AUDIT COMMITTEE CHARTER:

Ms. Sauter updated and reviewed changes to the Audit Committee's charter as previously discussed by the Audit Committee at their September 28, 2018, meeting. The charter had previously been reviewed by Mr. Odegaard.

Ms. Sauter also referenced RIO's organizational chart which reflects the Supervisor of Audit Services reporting administratively to the Executive Director of RIO and functionally to the SIB Audit Committee.

After additional revisions, accepted by Mr. Odegaard as well,

IT WAS MOVED BY MR. GRIFFIN AND SECONDED BY MS. TERNES AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE REVISED AUDIT COMMITTEE CHARTER.

AYES: DR. LECH, MS. TERNES, MR. WIENS, MR. GRIFFIN, AND MS. SMITH

NAYS: NONE

MOTION CARRIED

INTERNAL AUDIT SERVICES CHARTER:

Ms. Sauter reviewed Internal Audit Division's charter. After review,

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. WIENS AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE INTERNAL AUDIT DIVISION'S CHARTER.

AYES: MR. GRIFFIN, DR. LECH, MS. TERNES, MR. WIENS, AND MS. SMITH

NAYS: NONE

MOTION CARRIED

Ms. Ternes noted that she did volunteer as the liaison to the SIB. Ms. Ternes requested at the next Audit Committee meeting a new liaison be appointed as she will be retiring April 2019.

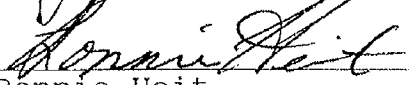
OTHER:

The next Audit Committee meeting is scheduled for Thursday, February 21, 2019, at 3:00 pm at the Retirement and Investment Office, 3442 East Century Ave., Bismarck, ND.

With no further business to come before the Audit Committee, Ms. Smith adjourned the meeting at 4:48 p.m.

Respectfully Submitted:


 Ms. Yvonne Smith, Chair
 SIB Audit Committee


 Bonnie Heit
 Assistant to the Audit Committee