

STATE INVESTMENT BOARD  
AUDIT COMMITTEE MEETING  
MINUTES OF THE  
SEPTEMBER 26, 2019 MEETING

**COMMITTEE MEMBERS PRESENT:** Yvonne Smith, PERS Board, Chair  
Rob Lech, TFFR Board, Vice Chair  
Julie Dahle, External Representative (tlcf)  
Jon Griffin, External Representative

**MEMBERS ABSENT:** Jodi Smith, Commissioner of Dept. of Trust Lands

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

**GUEST:** Anders Odegaard, Attorney General's Office

**CALL TO ORDER:**

Ms. Smith called the State Investment Board (SIB) Audit Committee meeting to order at 10:00 a.m. on Thursday, September 26, 2019, at the Retirement and Investment Office (RIO), 3442 E Century Ave., Bismarck, ND.

A quorum was present for conducting business.

**AGENDA:**

The agenda was considered for the September 26, 2019, meeting.

**IT WAS MOVED BY DR. LECH AND SECONDED BY MR. GRIFFIN AND CARRIED BY A VOICE VOTE TO APPROVE THE AGENDA FOR THE SEPTEMBER 26, 2019, MEETING AS DISTRIBUTED.**

**AYES: DR. LECH, MS. DAHLE, MR. GRIFFIN, AND MS. SMITH**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER SMITH**

**MINUTES:**

**IT WAS MOVED BY MR. GRIFFIN AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO ACCEPT THE MAY 23, 2019, MINUTES AS DISTRIBUTED.**

**AYES: MS. DAHLE, DR. LECH, MR. GRIFFIN, AND MS. SMITH**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER SMITH**

ELECTION OF OFFICERS:

The position of Chair was open for election. Dr. Lech nominated Ms. Smith.

IT WAS MOVED BY DR. LECH AND SECONDED BY MR. GRIFFIN AND CARRIED BY A VOICE VOTE TO CEASE NOMINATIONS AND CAST A UNANIMOUS BALLOT FOR MS. SMITH TO SERVE AS CHAIR OF THE SIB AUDIT COMMITTEE FOR THE PERIOD OF JULY 1, 2019 - JUNE 30, 2020.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER SMITH

The position of Vice Chair was open for election. Mr. Griffin nominated Dr. Lech.

IT WAS MOVED BY MR. GRIFFIN AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO CEASE NOMINATIONS AND CAST A UNANIMOUS BALLET FOR DR. LECH TO SERVE AS VICE CHAIR OF THE SIB AUDIT COMMITTEE FOR THE PERIOD OF JULY 1, 2019 - JUNE 30, 2020.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER SMITH

The Audit Committee concurred to forgo the appointment of a liaison to the SIB as Ms. Sauter has been providing updates to the SIB. In the event there would be a need to appoint a liaison, the Audit Committee will address it at that time.

CODE OF CONDUCT:

Ms. Flanagan reviewed the SIB Governance Manual Policy B-8, Board Members' Code of Conduct, which details the code of ethical responsibility applicable to members of the SIB. The SIB Audit Committee, as a standing committee of the SIB, is required to adhere to any applicable policies contained within the SIB Governance Manual. Ms. Flanagan requested the Audit Committee members affirm their understanding of the policies by signing and returning the Code of Conduct policy affirmation.

AUDIT ACTIVITIES REPORT:

Ms. Sauter reported on year end internal audit activities for the period of July 1, 2018 - June 30, 2019.

Teachers' Fund for Retirement (TFFR) - Four TFFR Employer Audits were completed. The workplan included 10 audits. Procedures for the TFFR Employer Audit Program were changed in November 2018. This resulted in less reviews being completed, as the new procedures needed to be developed and put into practice.

The Cost Benefit and Purchase/Refund Audits were completed. The File Maintenance Audit is in progress and is expected to be completed in the first quarter of 2019-20. The Salary Verification project was completed on July 17, 2019. The scope for randomly selected member accounts was expanded from 50 to 64.

Discussion followed on the implications of the Internal Audit Division transitioning from a compliance unit of TFFR to an internal audit function. Ms. Kopp discussed her concerns regarding the additional workload, particularly the Employer audits, as well as other areas that Retirement Services will eventually have oversight over. Ms. Kopp

felt the additional workload, would not allow Retirement Services and the Information Technology staff the time needed to address core business operations, Outreach Programs, and the Pension Administration Software project which will require significant staff resources. Ms. Kopp felt that an additional position will need to be assigned to Retirement Services to oversee compliance issues in the future given the Internal Audit Division's transitioning from a compliance unit of TFFR to an Internal Audit Division.

Ms. Sauter suggested the workload be outsourced in the interim and once the Pension Administration System (PAS) is finalized, reevaluate the operations of the Retirement Services Division. Discussion followed on outsourcing the work.

The Audit Committee took no action but will continue to have dialogue on this matter to come up with a viable solution that works for everyone.

SIB - The Executive Limitations Audit, Executive Director/CIO Effectiveness Survey, Executive Review Committee survey, and the SIB Self-Assessment were completed.

The Investment Due Diligence Audit was completed on July 31, 2019.

Retirement and Investment Office - The agency risk assessment was completed in September 2018.

Assistance was provided to CliftonLarsonAllen during the FY2019 financial audit of RIO as well as the GASB 68 census data audits.

The Internal Audit Division, as members of the Institute of Internal Auditors, attended monthly meetings along with biannual seminars.

Ms. Sauter reviewed the Investment Due Diligence Audit, Salary Verification Audit, the New England and Wilton Employer Audits, and the Warwick compliance audit.

**IT WAS MOVED BY MR. GRIFFIN AND SECONDED BY DR. LECH AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE JULY 1, 2018 - JUNE 30, 2019 INTERNAL AUDIT ACTIVITIES REPORT.**

**AYES: MR. GRIFFIN, DR. LECH, MS. DAHLE, AND MS. SMITH**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER SMITH**

**SIB REPORT:**

Ms. Sauter reviewed the Audit Committee's activity report to the SIB for the period of July 1, 2018 - June 30, 2019.

**IT WAS MOVED BY DR. LECH AND SECONDED BY MR. GRIFFIN AND CARRIED BY A VOICE VOTE TO APPROVE THE AUDIT COMMITTEE ACTIVITIES REPORT TO THE SIB FOR THE PERIOD OF JULY 1, 2018 - JUNE 30, 2019.**

**AYES: MS. DAHLE, DR. LECH, MR. GRIFFIN, AND MS. SMITH**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER SMITH**

**AUDIT CHARTER:**

On an annual basis, the Audit Committee's charter is to be reviewed and approved by the Audit Committee as well as the SIB. Ms. Sauter highlighted the Audit Committee's charter and addressed how the work of the Audit Committee is being addressed according to their Charter. The most significant changes to the charter included the Risk Assessment of RIO and RIO's legal counsel informing Internal Audit that they could no longer determine if Employer salaries are in compliance and that it was Retirement Services responsibility to follow-up on errors with the Employers.

The Audit Committee had no changes to their Charter.

**IT WAS MOVED BY DR. LECH AND SECONDED BY MR. GRIFFIN AND CARRIED BY A VOICE VOTE TO APPROVE THE ANNUAL REVIEW OF THE AUDIT COMMITTEE CHARTER.**

**AYES: MR. GRIFFIN, MS. DAHLE, DR. LECH, AND MS. SMITH**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER SMITH**

**EDUCATION:**

Ms. Sauter presented an educational segment on "Internal Audit Background."

**AUDIT WORKPLAN:**

Ms. Sauter reviewed changes to the July 1, 2019 - June 30, 2020 workplan. Additional time has been allocated to Portfolio Monitoring Procedures and Administrative Manual updates.

Discussion followed on the allocation of hours.

The Audit Committee suggested a contingency plan be put in place to give more of a cushion as no workplan is exact as they continually revolve.

**IT WAS MOVED BY MR. GRIFFIN AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO ACCEPT THE JULY 1, 2019 - JUNE 30, 2020, WORKPLAN.**

**AYES: DR. LECH, MS. DAHLE, MR. GRIFFIN, AND MS. SMITH**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER SMITH**

**INTERNAL AUDIT ACTIVITIES:**

Ms. Sauter provided an update on current activities of Internal Audit.

Additional time has been allocated to the TFFR File Maintenance Audit. Internal Audit is conducting a review of the flow of work of those staff that support the Retirement Services Division. Internal Audit, once they have a clear understanding of the operations, can work with the TFFR support staff in a collaborative effort to assist in identifying efficiencies as staff work through the implementation of the new PAS. The information can also be helpful in conducting various audits.

Ms. Kopp felt Internal Audit's review of the work flow could be postponed as the operations of the Retirement Services Division will be documented in detail as part of the re-engineering and automating of business processes during the PAS upgrade project. Ms. Kopp recommended more time be spent on this during or after the transition is opposed to now since current retirement processes and workflows will be done differently once a new web based system is in place. Retirement Services may not be able to address any recommendations from Internal Audit as all the processes will be changing in the future.

The Audit Committee took no action but will continue to have dialogue on this matter.

Ms. Sauter requested direction from the Audit Committee on the TFFR Employer salary review process.

Historically, two years are reviewed and a third year was added if systemic problems are identified in the two-year period. A sample of members are selected and the accuracy of retirement salaries, member contributions, and employer contributions reported to TFFR are verified. Service hours are reviewed for reasonableness and eligibility of members is also confirmed. If problems are identified during the review, the scope could be expanded to 100% of the members being reported to TFFR with the additional third year being reviewed. Since Internal Audit is focusing more on larger districts, expanding scopes will result in less mid-size employers being reviewed and possibly less other internal audits being completed.

Discussion followed on two possible options for the TFFR Employer Salary Reviews going forward:

1. A sample of members from two fiscal years are selected and the accuracy of retirement salaries, member contributions, and employer contributions reported to TFFR are verified. Service hours are reviewed for reasonableness and eligibility. Errors will be documented and forwarded to Retirement Services, but scope will not be expanded an additional year or members.
2. Keep scope the same.

Ms. Kopp requested the scope remain the same because of the implications of the Internal Audit Division transitioning from a compliance role to an internal audit function. The additional workload to Retirement Services is a concern. Ms. Kopp felt it would be more efficient if the third year is reviewed by Internal Audit.

Discussion followed on the options. After discussion, the Audit Committee concurred to keep the scope the same. The Audit Committee suggested Internal Audit allocate the appropriate hours to the TFFR program if a scope would need to be expanded. Another option would be to work with the Business Managers and have them correct the third year. Internal Audit is also to continue to identify the higher risk areas and prioritize projects based on that.

Other projects Internal Audit is currently working on is the Jamestown and Minot Employer audits, Benefit Payment Audit, File Maintenance Audit, Administrative Expense Audit, SIB Client Survey, and Cash Management and Rebalancing Audit.

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

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

NAYS: NONE

MOTION CARRIED

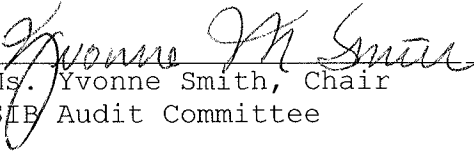
ABSENT: COMMISSIONER SMITH


OTHER:

The next Audit Committee meeting is scheduled for Wednesday, November 13, 2019, at 3:00 p.m. 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 12:10 p.m.

Respectfully Submitted:

  
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Ms. Yvonne Smith, Chair  
SIB Audit Committee

  
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Bonnie Heit  
Recorder