

STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
MAY 21, 2020, MEETING

COMMITTEE MEMBERS PRESENT: Yvonne Smith, PERS Board, Chair
Rob Lech, TFFR Board, Vice Chair
Julie Dahle, External Representative
Jon Griffin, External Representative
Jodi Smith, Commissioner of Dept. of Trust Lands

STAFF PRESENT: Connie Flanagan, Chief Financial Officer
Bonnie Heit, Admin Svs Suprv
David Hunter, Exec Dir/CIO
Sara Sauter, Suprv of Internal Audit
Dottie Thorsen, Internal Auditor
Denise Weeks, Retirement Program Manager

GUESTS: Dean DePountis, Attorney General's Office
Thomas Rey, CliftonLarsonAllen
Tonia Wildasin, CliftonLarsonAllen

CALL TO ORDER:

Ms. Smith called the State Investment Board (SIB) Audit Committee virtual meeting to order at 3:10 p.m. on Thursday, May 21, 2020, at the Retirement and Investment Office (RIO), 3442 E Century Ave., Bismarck, ND.

AGENDA:

The agenda was considered for the May 21, 2020, meeting.

IT WAS MOVED BY MR. GRIFFIN AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO APPROVE THE AGENDA FOR THE MAY 21, 2020, 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 DR. LECH AND SECONDED BY MR. GRIFFIN AND CARRIED BY A VOICE VOTE TO ACCEPT THE FEBRUARY 27, 2020, MINUTES AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

INTERNAL AUDIT ACTIVITIES REPORT:

Ms. Sauter reported on internal audit activities for the period of January 1, 2020 - March 31, 2020.

Audit Activities Completed on Behalf of RIO - Internal Audit reviewed RIO's policies pertaining to travel and office expenses and compared those to the Office of Management and Budget (OMB) policies and state purchasing requirements. The Administrative Expense Audit was completed January 30, 2020.

The Internal Control Assessment was started in March 2020; however, due to COVID-19 the assessment was temporarily put on hold.

Audit Activities Completed on Behalf of the SIB - The Executive Limitations Audit for calendar year 2019 was completed February 27, 2020. The audit reviews the Executive Director/CIO's compliance with the SIB Governance Manual Executive Limitation Policies A-1 through A-11.

Internal Audit assisted the Executive Review Committee (ERC) in administering the SIB's self-evaluation. Internal Audit administered the evaluation, collected the responses, and reported the results to the SIB on March 27, 2020.

Internal Audit also assisted the ERC in the annual evaluation of the Executive Director/CIO. Internal Audit facilitated a survey to the SIB and RIO staff. The survey to RIO staff was completed in March 2020 and the SIB survey was administered in March/April 2020. Both results were compiled and reported to the ERC on April 13, 2020.

The Cash Management and Rebalancing Audit will entail a review of procedures for cash management and rebalancing of investment allocations. The audit was started in March 2020; however, due to COVID-19 it was temporarily put on hold. The SIB has hired Parametric to assist with rebalancing the portfolios.

Audit Activities Completed on Behalf of Teachers' Fund for Retirement (TFFR) - Three Employer Audits were completed as of September 30, 2019, and one was in progress.

The Salary Verification Audit was in progress. Internal Audit verifies retirement salaries and contributions reported to TFFR for the prior fiscal year for 65 randomly selected member accounts from 60 different employers.

The TFFR File Maintenance Audit was issued January 31, 2020. Internal Audit reviewed system generated (CPAS) audit tables to ensure transactions initiated by staff are expected and appropriate given an individual's role within the organization. Member accounts are also reviewed to ensure contact and demographic information has been updated correctly per Member Action Forms on file. Other procedures reviewed are change of addresses and the posting of beneficiary deaths that are not in pay status.

Ms. Thorsen reviewed the Benefit Payment Audit which was issued April 20, 2020. Internal Audit reviews deaths, long outstanding checks, and long term annuitants to determine if established policies and procedures are being followed.

Internal Audit is also working with Retirement Services, Administrative Services, and Information Systems Services on tracking retirement program activities to assist with the implementation of the new Pension Administration System (PAS).

Internal Audit has been working with RIO's Information Technology staff as well as with the ND Information Technology Dept. to develop data analytics to assist in streamlining the employer salary, service hours, and eligibility review process. Internal Audit is in the process of working through the first employer audit comparing the employer master payroll file against the Education Standards and Practices Board's database.

Administrative Activities - The Internal Audit Division attended SIB, TFFR, and office internal meetings. Internal Audit continues to provide education to RIO staff on the Internal Audit Program as needed. The Supervisor of Internal Audit is pursuing a Master's in Business Administration with a concentration in Public Administration.

IT WAS MOVED BY DR. LECH AND SECONDED BY COMMISSIONER SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE INTERNAL AUDIT ACTIVITIES REPORT FOR THE PERIOD OF JANUARY 1, 2020 - MARCH 31, 2020.

**AYES: COMMISSIONER SMITH, MS. DAHLE, DR. LECH, MR. GRIFFIN, AND MS. SMITH
NAYS: NONE
MOTION CARRIED**

CLIFTONLARSONALLEN (CLA) :

Mr. Rey reviewed the engagement scope, work plan, critical audit areas, and timeline of the financial statement audit of RIO for the period of July 1, 2019 - June 30, 2020.

Mr. Rey also reviewed the audit results for GASB 68 schedules (schedules of employer allocations and pension amounts by employer) for the period ending June 30, 2019. An unmodified clean opinion was issued on the statements.

IT WAS MOVED BY MS. DAHLE AND SECONDED BY MR. GRIFFIN AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE AUDIT SCOPE AND APPROACH PRESENTED BY CLA FOR THE FINANCIAL STATEMENT AUDIT OF RIO FOR THE PERIOD OF JULY 1, 2019 - JUNE 30, 2020 AS WELL AS THE GASB 68 SCHEDULES OF EMPLOYER ALLOCATIONS AND PENSION AMOUNTS BY EMPLOYER FOR THE PERIOD ENDING JUNE 30, 2019.

**AYES: MR. GRIFFIN, MS. DAHLE, DR. LECH, COMMISSIONER SMITH, MS. SMITH
NAYS: NONE
MOTION CARRIED**

Retiree Benefit Fraud - Ms. Sauter reported on a fraud incident with a retiree benefit payment that occurred with the TFFR January 1, 2020 payroll. Retirement Services had received and processed a fraudulent Address Change Form and Direct Deposit Form. An incident report was filed with the State Risk Management Division in March 2020 along with the retiree's claim. Internal Audit was made aware of the fraud by Administrative Services in April 2020 when TFFR was informed the case was closed and the member had been reimbursed and the documentation was filed. Internal Audit has since then been reviewing Retirement Services processes and will be providing training on fraud.

WORKPLAN:

Ms. Sauter reviewed a draft of the July 1, 2020 - June 30, 2021 work plan. The work plan is based on the agency risk assessment which is reviewed and adjusted depending on changes in risk. Tentative work plan hours are allocated as follows - RIO/SIB 60% and TFFR 40%.

IT WAS MOVED BY MS. DAHLE AND SECONDED BY MR. GRIFFIN AND CARRIED BY A ROLL CALL VOTE TO APPROVE INTERNAL AUDIT'S WORK PLAN FOR THE PERIOD OF JULY 1, 2020 - JUNE 30, 2021.

**AYES: DR. LECH, COMMISSIONER SMITH, MS. DAHLE, MR. GRIFFIN, AND MS. SMITH
NAYS: NONE
MOTION CARRIED**

Current Internal Audit Activities - Mr. Hunter provided an agency update. Ms. Janilyn Murtha, Deputy Executive Director/Chief Retirement Officer and Ms. Jayme Heick, Retirement Programs Specialist will begin fulfilling their positions at RIO effective June 1, 2020. Mr. Matt Posch, Investment/Compliance Officer, was hired effective February 3, 2020, Ms. Ann Griffin, Investment Accountant, was hired effective March 2, 2020, and Ms. Denise Weeks was promoted to Retirement Program Manager effective March 1, 2020.

Ms. Sauter reviewed current Internal Audit activities. The Minot Employer Audit and the Cash Management and Rebalancing Audit will be issued sometime this summer.

The Internal Auditor II position, currently held by Ms. Thorsen, was reclassified to an Auditor III, effective April 1, 2020, to more accurately reflect the duties being performed. Ms. Sauter will also be updating her Auditor IV Job Description to more accurately reflect the duties being performed. No reclassification will be submitted.

Annual performance reviews are underway. The reviews are to be completed by June 19, 2020.

The ERC requested assistance from Internal Audit on the annual review of the Executive Director/CIO to administer surveys, collect data, and submit to the ERC.

Internal Audit is also working with Retirement Services, Administrative Services, and Information Systems Services on tracking retirement program activities to assist with the implementation of the new PAS. Meetings were held with retiring staff. Activities were identified and clarified on the task reports. A list of the four quarterly activities for TFFR was compiled and shared with the new Retirement Program Manager.

Because of the COVID-19 and staff working remotely, Internal Audit stressed that all documents received from members would need to be electronically scanned to drives or FileNet in order for staff to access them. The information was used in the TFFR File Maintenance Audit and Benefit Payment Audit and will also be utilized in the 2020 Cost Efficiency Audit. Adjustments to processing information will be done when the re-engineering of processes occurs in the selection of the new PAS.

Assistance will be provided to CLA during the financial audit of RIO as well as the GASB 68 census data audits which may also require additional time due to CLA working remotely.

Internal Audit and Administrative Services will be working on the Risk Management Report and the Worker's Compensation Report to receive discounts on the annual premiums.

IT WAS MOVED BY MR. GRIFFIN AND SECONDED BY MS. DAHLE AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE INTERNAL AUDIT'S CURRENT INTERNAL AUDIT ACTIVITIES REPORT.

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

NAYS: NONE

MOTION CARRIED

MEETING SCHEDULE:

A draft meeting schedule for the period of July 1, 2020 - June 30, 2021 was presented for the Audit Committee's consideration. The February 25, 2021, meeting was revised to a start time of 3:00 p.m. otherwise the Audit Committee concurred with the schedule.

IT WAS MOVED BY COMMISSIONER SMITH AND SECONDED BY DR. LECH AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE JULY 1, 2020 - JUNE 30, 2021, AUDIT COMMITTEE MEETING SCHEDULE.

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

NAYS: NONE

MOTION CARRIED

COMMITTEE MEMBERSHIP:

The Audit Committee membership will be determined by the SIB at their July 24, 2020, meeting. Membership on the Audit Committee will be for a term of one year or termination of term on the SIB. There is no limit to the number of terms that can be served. Current Audit Committee members are to let Ms. Sauter know if they are interested in continuing to serve by May 29, 2020.

OTHER:

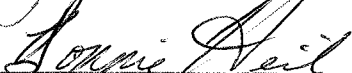
The next Audit Committee meeting is scheduled for Thursday, August 13, 2020, at 2:30 p.m. at the Retirement and Investment Office, 3442 East Century Ave., Bismarck, ND.

With no further business to come before the Audit Committee, Ms. Smith adjourned the meeting at 4:46 p.m.

Respectfully Submitted:



Ms. Yvonne Smith, Chair
SIB Audit Committee



Bonnie Heit
Recorder