

**STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
AUGUST 13, 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: Missy Kopp, Retirement Asst.
Matt Posch, Investment/Compliance Officer
Sara Sauter, Suprv of Internal Audit
Darren Schulz, Dep. CIO
Dottie Thorsen, Internal Auditor

GUESTS: Dean DePountis, Attorney General's Office

CALL TO ORDER:

Ms. Smith called the State Investment Board (SIB) Audit Committee meeting to order at 2:30 p.m. on Thursday, August 13, 2020, at the Retirement and Investment Office (RIO) (virtual host), 3442 E Century Ave., Bismarck, ND.

AGENDA:

The agenda was considered for the August 13, 2020, meeting.

IT WAS MOVED BY DR. LECH AND SECONDED BY COMMISSIONER SMITH AND CARRIED BY A VOICE VOTE TO APPROVE THE AGENDA FOR THE AUGUST 13, 2020, MEETING AS DISTRIBUTED.

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

MINUTES:

IT WAS MOVED BY MS. DAHLE AND SECONDED BY MR. GRIFFIN AND CARRIED BY A VOICE VOTE TO ACCEPT THE MAY 21, 2020, MINUTES AS DISTRIBUTED.

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

ELECTIONS:

IT WAS MOVED BY DR. LECH AND SECONDED BY MR. GRIFFIN AND CARRIED BY A ROLL CALL VOTE TO NOMINATE MS. SMITH AS CHAIR OF THE SIB AUDIT COMMITTEE FOR THE PERIOD OF JULY 1, 2020 - JUNE 30, 2021.

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

IT WAS MOVED BY MR. GRIFFIN AND SECONDED BY MS. DAHLE AND CARRIED BY A ROLL CALL VOTE TO NOMINATE DR. LECH AS VICE CHAIR OF THE SIB AUDIT COMMITTEE FOR THE PERIOD OF JULY 1, 2020 - JUNE 30, 2021.

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

NAYS: NONE

MOTION CARRIED

Ms. Smith appointed Ms. Sauter as liaison to the SIB for the period of July 1, 2020 - June 30, 2021.

CODE OF CONDUCT:

Mr. Posch 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. Mr. Posch requested the Audit Committee members affirm their understanding of the policy by signing and returning the Code of Conduct policy affirmation.

Discussion followed on the Ethics Commission and if the Code of Conduct policy would need to be revised based on their work. Mr. DePountis, RIO Legal counsel, will check to see if there is anything the Ethics Commission is doing that would affect the SIB Audit Committee.

PENSION ADMINISTRATION SYSTEM (PAS) INTERNAL AUDIT ROLE:

Ms. Sauter reviewed Internal Audit's role in the implementation of the Teachers' Fund for Retirement (TFFR) Pension Administration System (PAS). There will be three stages to the process; Stage One - Business Process Re-Engineering, Stage Two - Assistance with Procurement, and Stage 3 - Implementation Assistance. RIO is currently in the process of securing a contract for the consultant.

INTERNAL AUDIT ACTIVITIES REPORT:

Ms. Sauter reported on current internal audit activities. Due to COVID-19, there was a shift of priorities and Internal Audit continues to work with management.

The following audits are in progress:

- Minot TFFR Salary Review - Phase 2
- Salary Verification Audit - Phase 2
- Internal Control Assessment - Phase 2
- Cash Management and Rebalancing Audit - Phase 1
- Investment Confirmation Audit - Phase 1

On June 1, 2020, Ms. Jan Murtha joined RIO as the Deputy Executive Director/ Chief Retirement Office. Internal Audit has been working with Retirement Services on prioritizing various issues.

RIO has been spending time on team building and addressing the culture within the office in preparation of the Teachers' Fund for Retirement (TFFR) Pension Administration System (PAS) upgrade. Manager and staff trainings have taken place and will continue to assist in improving the overall environment of the agency.

Due to COVID-19 and CliftonLarsonAllen (CLA) not being able to come onsite, a significant amount of time was spent in June by Internal Audit staff gathering documents and sending them to CLA. Internal Audit also participated in meetings on the year's closeout process due to new employees joining RIO. Notifications were sent out for GASB 68 in July. Internal Audit will also be sending out confirmations for the financial statement audit in August as soon as closeout is completed, and CLA selects the sample.

RIO annual performance evaluations were completed in June. Annual performance evaluations are three part; first part is a self-evaluation, second manager-evaluation, and lastly overall review.

The Supervisor of Internal Audit was contacted by SIB members Treasurer Kelly Schmidt and Chief Deputy Attorney General Troy Siebel to help provide information on the SIB's evaluation of the Executive Director/CIO position. Information was provided to multiple people, and a meeting was held to go over the process.

The Supervisor of Internal Audit will be conducting the SIB Client Satisfaction Survey in August 2020.

Internal Audit worked with the Loss Control Committee on its annual Risk Management Discount Program application. The appropriate documentation was submitted in June 2020 and RIO received the full 15% discount. The Loss Control Committee is also working on the Worker's Compensation Discount Program application. This is the first year that RIO will be submitting the appropriate documentation to hopefully receive a 15% discount also.

The Loss Control Committee is working on updating the Employee Policy Manual. This project is tentatively scheduled to be completed by December 2020.

The Supervisor of Internal Audit was asked to join the PAS Committee. The Request for Proposal (RFP) for hiring a consultant was issued in June. The first two weeks of July, the Supervisor of Internal Audit helped evaluate the proposals received. A consultant was selected and contract negotiations are currently taking place. Negotiations are expected to be completed by September 2020, and will follow with Phase 1 of the project.

IT WAS MOVED BY DR. LECH AND SECONDED BY MS. DAHLE AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE CURRENT INTERNAL AUDIT ACTIVITIES REPORT.

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

NAYS: NONE

MOTION CARRIED

YEAR END ACTIVITIES REPORT:

Ms. Sauter reviewed year end activities for the period of July 1, 2019, through June 30, 2020.

Audits completed on behalf of RIO:

- The Executive Limitation Audit was completed on February 27, 2020.
- The Executive Director/CIO Effectiveness Survey was completed on March 30, 2020.
- The SIB Executive Review Committee Survey was completed on April 8, 2020.
- The SIB Client Survey was completed and reported on October 25, 2019.

- Internal Audit worked with the Executive Review Committee on administering the SIB Self- Assessment Survey and reported the results at their March 27, 2020, meeting.
- The Administrative Expense Audit was completed on January 30, 2020.
- Internal Audit provided assistance to CliftonLarsonAllen (CLA) during the 2019 financial audit of RIO as well as the GASB 68 census data audits. Due to COVID-19, CLA was unable to be onsite for the 2020 audit which has resulted in more assistance from Internal Audit in providing documentation.

Mr. Griffin questioned if a discount would be available since CLA was not on-site.
Ms. Sauter will check with CLA on that.

- Internal Audit joined RIO's Loss Control Committee. The Loss Committee submitted to ND Risk Management documentation validating RIO has appropriate policies and training for the State's Risk Management Program. RIO received a 15% discount on the Risk Management premium for having an adequate program.

Audits completed on behalf of the SIB:

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

Audits completed on behalf of TFFR:

- Three Employer Audits were completed during fiscal year 2019-2020. The fourth audit is in progress.
- The Benefit Payment Audit was completed on April 20, 2020.
- The File Maintenance Audit was completed on January 31, 2020.
- The Annual Salary Verification Project is currently in progress.
- A full year of activities were recorded for Retirement Services, Administrative Services, and Information Technology Services. Work flow was documented to help find efficiencies and was also used in various audits. The task lists will also be provided to the consultants for the PAS project.

Professional Development:

- Audit Staff attended the IIA's fall seminar which focused on Critical Thinking. Audit Staff also attended the IIA's spring seminar which focused on Authentic Leadership and Gaining & Sustaining Creditability. A webinar on Ethics was also taken.
- Internal Audit Staff completed Cybersecurity and Risk Management training.
- Supervisor of Internal Audit attended the Association of Public Pension Fund Auditors fall conference.
- The Supervisor of Internal Audit completed the Master's in Business Administration and also Master's in Public Administration.

Ms. Thorsen reviewed the TFFR task list summary for July 1, 2019 - June 30, 2020. The task lists were initially tracked for use and research for PAS. When the Deputy Executive Director/Chief Retirement Officer and Retirement Program Manager retired, the task lists were then used to document monthly activities.

IT WAS MOVED BY COMMISSIONER SMITH AND SECONDED BY MR. GRIFFIN AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE YEAR END AUDIT ACTIVITIES REPORT.

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

NAYS: NONE

MOTION CARRIED

REPORT TO SIB:

Ms. Sauter highlighted the Audit Committee's annual report to the SIB for the period of July 1, 2019 - June 30, 2020.

IT WAS MOVED BY DR. LECH AND SECONDED BY COMMISSIONER SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE ANNUAL AUDIT COMMITTEE REPORT TO THE SIB FOR THE PERIOD OF JULY 1, 2019 - JUNE 30, 2020.

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

CHARTER:

Ms. Sauter reviewed the Audit Committee's charter. The SIB requires the Audit Committee confirm, on an annual basis, the review of all responsibilities outlined in the charter. The report details the responsibilities contained in the charter and documents activities undertaken by the Audit Committee to meet those responsibilities.

Discussion followed on a fraud incident with a retiree benefit payment that occurred with the TFFR January 1, 2020, payroll and what measures the office has taken to prevent this from occurring again. The Audit Committee requested the SIB be informed of the incident so they are aware of it.

IT WAS MOVED BY COMMISSIONER SMITH AND SECONDED BY DR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE AUDIT COMMITTEE CHARTER REVIEW OF RESPONSIBILITIES FOR THE PERIOD OF JULY 1, 2019 - JUNE 30, 2020.

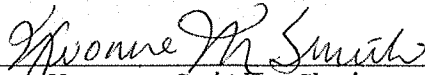
YES: MR. GRIFFIN, MS. DAHLE, DR. LECH, COMMISSIONER SMITH, AND MS. SMITH
 NAYS: NONE
 MOTION CARRIED

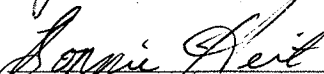
OTHER:

The next Audit Committee meeting is scheduled for Thursday, November 12, 2020, at 2:30 p.m. at the Retirement and Investment Office (virtual), 3442 East Century Ave., Bismarck, ND.

With no further business to come before the Audit Committee, Ms. Smith adjourned the meeting at 4:34 p.m.

Respectfully Submitted:


 Ms. Yvonne Smith, Chair
 SIB Audit Committee


 Bonnie Heit
 Recorder