

**STATE INVESTMENT BOARD  
AUDIT COMMITTEE MEETING  
MINUTES OF THE  
MAY 20, 2021 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 University & School Lands

**STAFF PRESENT:** Connie Flanagan, Chief Financial Officer  
Bonnie Heit, Suprv of Admin Svs  
David Hunter, Exec Dir/CIO  
Jan Murtha, Dep Exec Dir/CRO  
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

**CALL TO ORDER:**

Ms. Smith called the State Investment Board (SIB) Audit Committee meeting to order at 2:40 p.m. on Thursday, May 20, 2021, at Workforce Safety & Insurance, 1600 E Century Ave., Bismarck, ND.

The following Audit Committee members were available representing a quorum; Ms. Smith, Dr. Lech, Commissioner Smith, Ms. Dahle, and Mr. Griffin

**AGENDA:**

The agenda was considered for the May 20, 2021, meeting.

**IT WAS MOVED BY DR. LECH AND SECONDED BY MR. GRIFFIN AND CARRIED BY A VOICE VOTE TO APPROVE THE AGENDA FOR THE MAY 20, 2021, MEETING AS DISTRIBUTED.**

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

**NAYS: NONE**

**MOTION CARRIED**

**MINUTES:**

**IT WAS MOVED BY COMMISSIONER SMITH AND SECONDED BY MR. GRIFFIN AND CARRIED BY A VOICE VOTE TO ACCEPT THE FEBRUARY 25, 2021, MINUTES AS DISTRIBUTED.**

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

**NAYS: NONE**

**MOTION CARRIED**

**CLIFTONLARSONALLEN (CLA):**

Mr. Rey reviewed the engagement scope, work plan, critical audit areas, external/internal audit interplay, government pension data analytics, and timeline of the financial statement audit of RIO for the period of July 1, 2020 - June 30, 2021

CLA will be remotely conducting the preliminary fieldwork for the audit starting in June 2021 and are planning to be on-site for the final field work in August 2021.

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, 2020. An unmodified clean opinion was issued on the statements.

**IT WAS MOVED BY MR. GRIFFIN AND SECONDED BY MS. DAHLE AND CARRIED BY A VOICE VOTE TO APPROVE THE AUDIT SCOPE AND APPROACH PRESENTED BY CLA FOR THE FINANCIAL STATEMENT AUDIT OF RIO FOR THE PERIOD OF JULY 1, 2020 - JUNE 30, 2021 AS WELL AS THE GASB 68 SCHEDULES OF EMPLOYER ALLOCATIONS AND PENSION AMOUNTS BY EMPLOYER FOR THE PERIOD ENDING JUNE 30, 2020.**

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

**NAYS: NONE**

**MOTION CARRIED**

**LEGISLATIVE UPDATE:**

Mr. Hunter highlighted HB 1022 (RIO's budget) and HB 1425 (In-State Investment Program).

Mr. Hunter also updated the Audit Committee on RIO's upcoming office relocation which is scheduled sometime in September 2021.

**AUDIT ACTIVITIES:**

Audit Committee - Ms. Sauter reviewed activities of Internal Audit for the period of January 1 - March 31, 2021.

**RIO Audit Activities:**

The Executive Limitations Audit was completed in February 2021.

Support has been provided to the Executive Review Committee (ERC) in administering a board self-evaluation. Results were presented on April 23, 2021.

Internal Audit also assisted the ERC to facilitate a survey to the SIB and RIO personnel for the annual evaluation of the Executive Director/CIO. The results were presented to the ERC in April 2021.

CLA's contract with RIO expired with the completion of the 2019/20 annual audits. The State Auditor's Office issued an RFP and selected CLA to serve as RIO's external audit partner for the next three years.

The Administrative Policy Manual for the office is being reviewed. The policy manual should be completed (with the exception of the IT policies) by June 30, 2021.

SIB Audit Activities:

The cash management and rebalancing audit is in progress.

The internal control guideline assessment is currently in progress.

Teachers' Fund for Retirement (TFFR) Audit Activities:

The Minot employer audit was completed and the report was issued November 2020.

The Salary Verification/Participant Data review for 2018-19 was completed May 11, 2021. Ms. Thorsen reviewed the results. Discussion followed on the Employer Payment Plans.

Internal Audit continues to assist in the Pension Administration System (PAS) upgrade. Stage 1 of the project was completed March 2021. Stage 2 is in progress. The Request for Proposal (RFP) for the new PAS vendor will be issued June 2021 with a due date of July 21, 2021.

Administrative Activities:

Internal Audit continues to attend RIO meetings, board meetings, and training.

**IT WAS MOVED BY DR. LECH AND SECONDED BY MR. GRIFFIN AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE AUDIT ACTIVITIES REPORT FOR THE PERIOD OF JANUARY 1 - MARCH 31, 2021.**

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

**NAYS: NONE**

**MOTION CARRIED**

WORKPLAN:

Ms. Sauter reviewed Internal Audit's workplan for 2021-22. The workplan represents what Internal Audit anticipates will be accomplished in the upcoming fiscal year. The workplan may require adjustments as needs and priorities may change.

**IT WAS MOVED BY MR. GRIFFIN AND SECONDED BY MS. DAHLE AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE INTERNAL AUDIT'S 2021-22 WORK PLAN.**

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

**NAYS: NONE**

**MOTION CARRIED**

GOVERNANCE REVIEW:

Dr. Lech lead the discussion on governance structure and the importance of following policies and procedures established by RIO and the SIB and holding itself accountable as an institution.

Ms. Sauter reviewed the role of the audit division of RIO. In the past, RIO's audit division was set up as a compliance entity rather than an internal audit function. Today, because of the risks identified by RIO leadership and board members, the role has changed to a true internal audit function to benefit RIO and particularly the SIB. Because of the changes made, RIO's Internal Audit Division now informs and works with the SIB Audit Committee to assist the Audit Committee in taking a more active role in the oversight of RIO. The Audit Committee is a standing committee of the SIB

authorized under SIB Governance Policy B-6, Standing Committees. Its primary function is to assist the SIB in fulfilling its oversight responsibilities of RIO internal and external audit programs, including financial and other reporting practices, internal controls, and compliance with laws, regulations, and ethics.

Dr. Lech, Lt. Governor Sanford, and Ms. Sauter felt it important to bring a situation before the Audit Committee for their awareness and input. It is crucial to do a review when there is any situation that a board member may have acted outside the governance structure.

On April 28, 2021, State Treasurer Thomas Beadle, as a trustee of the SIB, made a request to Callan, the SIB investment consultant, for due diligence because he had concerns expressed by several outside entities voiced to him. Callan has provided the requested documentation to State Treasurer Beadle. This request raises the issue of how board members should address due diligence concerns on an individual basis or on a board basis.

Discussion took place on Board Governance Policy B-2 Governing Style in Section B Governance Process which states the board will:

1. *Cultivate a sense of group responsibility. The board, not the staff, will be responsible for excellence in governing. The board will strive to be an initiator of policy, not merely a reactor to staff initiatives. The board will strive to use the expertise of individual members to enhance the ability of the board as a body, rather than to substitute the individual judgments for the board's values.*
2. *Direct, control, and inspire the organization through the careful establishment of the broadest written policies reflecting the board's values and perspectives. The board's major focus will be on the intended long-term impacts outside the operating organization (Ends), not on the administrative or programmatic means of attaining those effects.*
3. *Enforce upon itself whatever discipline is needed to govern with excellence. Discipline will apply to matters such as attendance, policy-making principles, respect of roles, and ensuring the continuity of governance capability.*
4. *After speaking with one voice, self-police any tendency to stray from adopted board governance policies. The board will not allow any officer, member, or committee of the board to hinder or be an excuse for not fulfilling its commitments. The board respects the right of any member, as an individual, to publicly disagree with an adopted board policy. Board members will accurately portray board policies and decisions.*

The issue will be addressed at the SIB's May 21, 2021, meeting. SIB leadership and Ms. Sauter wanted the Audit Committee to be informed of the situation as it may come back to the Audit Committee for their review and possible recommendation. The SIB will be informed that the Audit Committee was notified of the situation at their May 20, 2021, meeting. The Audit Committee is in agreement that all possible violations of governance policy need to be investigated for the benefit of RIO personnel and the SIB.

#### **INTERNAL AUDIT ACTIVITIES:**

Ms. Sauter reviewed current Internal Audit activities.

The ERC administered the SIB self-evaluation and results were reported on April 23, 2021. The ERC is also working on the Executive Director/CIO's annual evaluation. Review and a compensation recommendation will be presented to the SIB at their May 21, 2021, meeting.

Stage 1 of the Pension Administration System (PAS) was completed March 2021 and Stage 2 is now in process. RIO has maintained the established timeline set for the completion of Stages 1 and 2 of the PAS project.

During the Legislative session, Fund Facts on the SIB and TFFR programs were sent to the Legislature on a weekly basis.

Internal Audit is also reviewing RIO's procurement process to ensure that the proper procedures are followed in the renewal of expiring contracts for services.

Internal Audit will be providing support to CLA during the July 1 2020 - June 30, 2021, financial audit of RIO and the GASB 68 census data audits.

Internal Audit is assisting in the Risk Management and Workers Compensation discount programs. If all criteria are met, RIO will be eligible to receive up to a 15% discount on premiums for both programs.

Ms. Sauter is participating in the review process for the RFP responses for the PAS project. Responses are due July 21 and evaluations will take place in July and August.

Ms. Sauter is also participating in a review of the SIB governance manual to ensure that board members are following the governance structure.

Internal Audit also provided the audit scopes for the upcoming TFFR File Maintenance and Death Audits.

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

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

**NAYS: NONE**

**MOTION CARRIED**

**PAS SYSTEM:**

Ms. Sauter provided a summary of the items completed by the agency to finalize Phase 1 and move into Phase 2 of the PAS project. The process is going well and the agency is on schedule.

**SCHEDULE:**

A proposed meeting schedule for 2021-22 was presented to the Audit Committee for their consideration.

**IT WAS MOVED BY COMMISSIONER SMITH AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO ACCEPT THE 2021-22 AUDIT COMMITTEE MEETING SCHEDULE.**

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

**NAYS: NONE**

**MOTION CARRIED**

**MEMBERSHIP:**

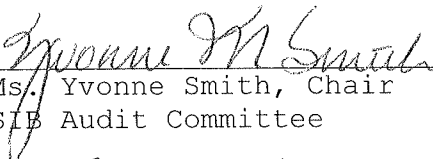
Each July, the SIB is required to review and approve appointments to the SIB Audit Committee. Ms. Sauter requested the Audit Committee trustees notify her of their intent to continue to serve for the period of July 1, 2021 - June 30, 2022.

**OTHER:**

The next Audit Committee meeting is scheduled for Wednesday, August 11, 2021, at 2:30 p.m. at Workforce Safety & Insurance, 1600 East Century Ave., Bismarck, ND.

With no further business to come before the Audit Committee, Ms. Smith adjourned the meeting at 4:49 p.m.

Respectfully Submitted:

  
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Ms. Yvonne Smith, Chair  
SIB Audit Committee

  
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Bonnie Heit  
Recorder