

SIB AUDIT COMMITTEE MEETING

**September 27, 2013, 2:00 p.m.
Workforce Safety & Insurance Board Room
1600 East Century Avenue, Bismarck, ND**

AGENDA

1. Call to Order and Approval of Agenda – Chair (committee action)
2. Approval of May 17, 2013 Minutes – Chair (committee action)
3. Election of Chair, Vice Chair, and Liaison – Chair (committee action)
4. 2012-13 Audit Activities Report – Fay Kopp, Dottie Thorsen (committee action)
 - School district compliance audit reports
 - Benefits payments audit report
 - File maintenance audit report
 - 2012-13 year end reports
5. 2012-13 Audit Committee Report to SIB – Chair, Fay Kopp (committee action)
6. 2013-14 Audit Progress Report – Fay Kopp, Dottie Thorsen (discussion only action)
7. Chief Investment Officer-Exec. Director Search – Mike Sandal (discussion only)
8. Audit Supervisor Position – Chair, Fay Kopp (discussion only)
9. Audit Committee Charter – Fay Kopp (discussion only)
10. Other
Next SIB Audit Committee meeting – November 22, 2013 – 1:00 pm
11. Adjournment

Any individual requiring an auxiliary aid or service should contact the Retirement and Investment Office at (701) 328-9885 at least three (3) days prior to the scheduled meeting.

STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
MAY 17, 2013 MEETING

COMMITTEE MEMBERS PRESENT: Rebecca Dorwart, Chair
Lonny Mertz, Vice Chair
Mike Gessner, TFFR Board/Liaison to the SIB
Mike Sandal, PERS Board

COMMITTEE MEMBERS ABSENT: Cindy Ternes, Workforce Safety & Insurance

STAFF PRESENT: Connie Flanagan, Fiscal & Investment Officer
Fay Kopp, Interim Executive Director
Les Mason, Internal Audit Supervisor
Darlene Roppel, Retirement Assistant
Dottie Thorsen, Internal Audit

OTHERS PRESENT: Thomas Rey, CliftonLarsonAnderson

CALL TO ORDER:

Ms. Dorwart called the State Investment Board (SIB) Audit Committee meeting to order at 1:00 p.m., on Friday, May 17, 2013, at the State Capitol, Peace Garden Room, Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

The Audit Committee considered the May 17, 2013, agenda.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE MAY 17, 2013, MEETING.

AYES: MS. DORWART, MR. SANDAL, MR. MERTZ, AND MR. GESSNER

NAYS: NONE

MOTION CARRIED

ABSENT: MS. TERNES

MINUTES:

The Audit Committee considered the minutes from the February 22, 2013, meeting.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE FEBRUARY 22, 2013, MINUTES AS WRITTEN.

AYES: MR. GESSNER, MS. DORWART, MR. SANDAL, AND MR. MERTZ

NAYS: NONE

MOTION CARRIED

ABSENT: MS. TERNES

EXTERNAL AUDIT:

Mr. Thomas Rey, CliftonLarsonAllen, reviewed the Retirement and Investment Office's financial audit scope and approach for the period of July 1, 2012 to

June 30, 2013. CliftonLarsonAllen is performing preliminary field work the week of May 13, 2013.

Mr. Rey reviewed clarity audit standards, that primarily the external auditors will need to follow, and new GASB statements: Statement 67 (Financial Reporting for Pension Plans) and Statement 68 (Accounting and Financial Reporting for Pensions) that RIO will be required to meet in 2014 and 2015, respectively.

IT WAS MOVED BY MR. MERTZ AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT CLIFTONLARSONALLEN'S AUDIT SCOPE AND APPROACH FOR THE RETIREMENT AND INVESTMENT OFFICE FOR THE PERIOD OF JULY 1, 2012 - JUNE 30, 2013.

AYES: MR. MERTZ, MS. DORWART, MR. SANDAL, AND MR. GESSNER

NAYS: NONE

MOTION CARRIED

ABSENT: MS. TERNES

INTERNAL AUDIT ACTIVITIES:

Mr. Mason reviewed the Internal Audit Division's work activity for the period of July 1, 2012 through May 10, 2013.

School District Audit Progress - The objective is to complete 43 or more school district audits during FY2013. Currently, 37 audits have been completed, four audits are in progress, and information on four or more school districts has been received, and information has been requested from seven additional school districts.

Ms. Dorwart and Ms. Kopp have been meeting with Mr. Mason on a biweekly basis to review and revise the policies and procedures as they relate to the school district audit process, monitoring workflow, and discussing any concerns staff may have as they work through the audits.

TFFR File Maintenance - Ms. Thorsen reported she reviewed various member account transactions to the member accounts for the months of January - March 2013. There were no exceptions noted.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE INTERNAL AUDIT DIVISION'S INTERNAL AUDIT ACTIVITY REPORT FOR THE PERIOD OF JULY 1, 2012 - MAY 10, 2013.

AYES: MS. DORWART, MR. GESSNER, MR. MERTZ, AND MR. SANDAL

NAYS: NONE

MOTION CARRIED

ABSENT: MS. TERNES

WORK PLAN:

Proposed Work Plan - Mr. Mason reviewed the proposed work plan, budgeted hours, and risk assessment/selection of school district audits for fiscal year July 1, 2013 through June 30, 2014.

Discussion followed on the content of the work plan, policies, procedures, and practices that are in place to achieve the work plan that had been presented to the Audit Committee.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. MERTZ AND CARRIED ON A VOICE VOTE TO ACCEPT THE JULY 1 2013 - JUNE 30, 2014 WORK PLAN.

AYES: MR. SANDAL, MR. GESSNER, MS. DORWART, AND MR. MERTZ

NAYS: NONE

MOTION CARRIED

ABSENT: MS. TERNES

CHARTER:

Mr. Mason stated a revised charter will be presented at the September 27, 2013, meeting for the Audit Committee's consideration. Mr. Mason is in the process of gathering information to reference and also comparing the language of the charter to other entities. Mr. Mertz volunteered to work with staff on updating the charter.

Mr. Gessner noted he will begin providing updates on the Audit Committee meetings to the Teachers' Fund for Retirement Board.

MEETING SCHEDULE:

Mr. Mason reviewed the July 1, 2013 - June 30, 2014, Audit Committee meeting schedule. The Audit Committee was in agreement with the schedule.

OTHER:

The next Audit Committee meeting is scheduled for September 27, 2013, at 1:00 p.m. at the State Capitol, Peace Garden Room.

ADJOURNMENT:

With no further business to come before the Audit Committee, Ms. Dorwart adjourned the meeting at 2:30 p.m.

Respectfully Submitted:

Ms. Rebecca Dorwart, Chair
SIB Audit Committee

Bonnie Heit
Assistant to the Audit Committee

MEMORANDUM

TO: SIB Audit Committee

FROM: Fay Kopp, Interim Executive Director – Chief Retirement Officer

DATE: September 20, 2013

SUBJ: 2012-13 Audit Activities Report

We are pleased to report that the 2012-13 audit work plan goals were met. Dottie Thorsen will review the 2012-13 audit activities report in more detail at the meeting, but I also wanted to make a few comments. Audit staff worked hard to incorporate changes and efficiencies into their audit programs, and in fact exceeded the school district compliance audit goal of 43 by completing 45 during the fiscal year ended June 30, 2013. In addition, 4 follow up reviews of not-in-compliance audits were conducted as well as the file maintenance, benefits payments, and executive limitations audits. I am proud of the efforts of the audit staff, and appreciate the support and guidance of the Audit Committee.

As it relates to school district audits, audit staff is starting to get back on track with the 5-year audit cycle schedule. Cycle 3 started in January 2010, so estimated completion date is December 2014. As of June 30, 2013, there were 64 districts left to be audited in this cycle (of the 172 total).

Certainly Les Mason's retirement will have an impact on the 2013-14 audit work plan, as well as the completion of the third cycle of school district audits in the expected time frame. The Committee can discuss this in more detail at the September meeting, but for now, thanks for helping make this a productive audit year.

Enclosures

**RETIREMENT AND INVESTMENT OFFICE
INTERNAL AUDIT UNIT
AUDIT ACTIVITIES REPORT
FOR THE YEAR ENDED JUNE 30, 2013**

SEPTEMBER 20, 2013

The audit objective of the Internal Audit Unit is twofold. First, provide comprehensive, practical audit coverage of the Retirement and Investment Office (RIO) programs. Second, assist RIO management, the State Investment Board (SIB), and the Teachers' Fund for Retirement Board (TFFR) by conducting special reviews or audits.

Our audit coverage is based on the Audit Plan for the fiscal year ended June 30, 2013 (Plan), which was reviewed by RIO management and the SIB Audit Committee. The Plan is consistent with the Internal Audit Unit charter and goals, and the goals of RIO. Audit effort is being directed to the needs of RIO and the concerns of management and the Audit Committee.

REGULAR AUDIT COVERAGE 2012-13 Audit Work Plan

Retirement and Investment Office

- **Office Administration – Executive Limitations**

We tested executive performance of the Interim Chief Investment Officer to determine compliance with the SIB's Executive Limitations policy for the seven month period starting June 1, 2012 and ending December 31, 2012.

There were no exceptions noted in the report dated February 1, 2013.

Retirement Program

- **School District Reporting**

We examined school district reporting to TFFR to determine that retirement salaries reported for their members are in compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). Other reporting procedures reviewed during the audit process are eligibility, calculation of service hours and that the resultant years of service reported are in compliance with NDCC 15-39.1-27, and eligibility for TFFR membership. A written report is issued after each audit is completed.

Our objective was to complete forty-three school district audits during fiscal 2013. Forty five audits were completed this year, and at year end, four were in progress and information was requested from fourteen additional school districts.

Due to significant reporting problems, we conducted onsite work for two of the audits; and five audits were one hundred percent of the members. Of the forty-five audits completed, we found that six audited districts were not in compliance, one district was generally in compliance, and thirty eight districts were in compliance with state law and state administrative code.

Retirement Program Audit Activities Report
Page 2

Reporting problems identified through the audit process include:

- Understated retirement salary by excluding salary for:
 1. In-staff subbing
 2. Eligible coaching
 3. Workshop/in-service stipends
 4. Advisor
 5. Contract(understated amount)

- Overstated retirement salary by including:
 1. Ineligible fringe benefits
 2. Unused sick and personal leave
 3. Referee/official salary
 4. Bus driving
 5. Para-professional salary
 6. Janitorial/maintenance salary

- Reported summer school salaries in wrong fiscal year.
- Reported ineligible part-time teachers' salaries.
- Reported salaries for members who did not have written agreements.
- Reported incorrect service hours.

A written report is filed with the Deputy Executive Director – Chief Retirement Officer and School District Administrator upon completion. This report is also filed quarterly with the Audit Committee.

We also completed four not in compliance follow-up reviews. Three of the Districts were in compliance with no further audit procedures required in the third cycle. The fourth District did not correct the errors noted in the original audit report. We will review a sample of salaries again in fiscal year 2014/15.

This is an audit area that requires special emphasis due to the level of risk identified through previous audit results. Our long-range plans include auditing each school district over a five year period.

➤ **Statistics for the fiscal year ending June 30, 2013**

Total districts at beginning of third cycle (Jan. 2010)	231
Less: County and State institutions not included	-19
Districts with ten or fewer members not included	-29
Consolidations/closures	-11
Employers to be audited in the third cycle	<u>172</u>

Completed audits (from third cycle)	-108
Remaining audits	<u>64</u>

Benefit Payments Audit

A review of deaths, long outstanding checks, purchase of service, and refunds was completed to determine that established policy and procedures were being followed by the Retirement Services division.

No exceptions noted in the report dated September 17, 2013.

- **TFFR File Maintenance**

We quarterly test changes made to TFFR member account data by RIO employees.

Audit tables are generated and stored indicating any file maintenance changes made to member accounts. Our external auditors recommended that internal audit review these tables on a regular basis.

One exception was noted during the fieldwork for the fourth quarter (April through June 2013). A member action form was not scanned to a member's file and information was incorrectly entered into CPAS.

PROCEDURE AND POLICY

We started developing a Procedure and Policy Manual. For the District audits, detailed instructions were developed for the following processes: selecting the Districts to audit for the fiscal year, selecting the sample members for the Districts to be audited, setting up the workbooks for each District with the salary, contribution, and service hours from CPAS, and requesting the information from the Districts selected.

FINANCIAL AUDIT RESULTS

The annual financial audit of the Retirement and Investment Office for the year ended June 30, 2013 was conducted by independent auditors from the accounting firm CliftonLarsonAllen. The firm has not yet issued the report.

SUMMARY

Based on the results of our audits, and the audits performed by independent auditors, we formed the opinion that adequate controls have been provided over these activities, and that the controls were working effectively and efficiently. We consider the Retirement Services Division to be highly effective in accomplishing its assigned responsibilities. We believe this can be attributed to a very knowledgeable staff; good communication and

feedback between management and staff; thorough on-the-job training for staff; and comprehensive job instructions.

At the direction of the Audit Committee, audit effort was directed to activities that are of greatest concern to the Committee, RIO management, and the independent auditors. In the past year, changes have been made to improve efficiency and audit processes.

We are working closely with RIO management, the Audit Committee, and the independent auditors to develop comprehensive audit coverage for the retirement program.

LOOKING AHEAD

The focus of the internal audit function has been on school district reporting to TFFR for its members. We will continue to work on the other areas of audit coverage outlined in our fiscal 2014 Work Plan and any special projects as directed or requested by Executive Director, Deputy Executive Director, or the SIB Audit Committee. We will continue to work closely with management, the independent auditors, and the SIB Audit Committee to increase the efficiency, effectiveness, and economy of the total audit activity.

North Dakota Retirement and Investment Office
 SCHOOL DISTRICT COMPLIANCE AUDITS
 For the Fiscal Year 7/1/2012 though June 30, 2013

			FISCAL YEARS	MEMBERS IN DISTRICT	REPORT DATE	MEMBER/ EMPLOYER CONTRIB'S DR(CR)	MEMBER'S SALARIES ADJUSTED	MEMBER SERVICE CREDIT ADJUSTED	STATUS
In compliance			38						
Generally in compliance			1					LM 25 audits DT 20 audits	
Not in compliance			6						
			<u>45</u>						
1	LM	Ashley	6/30/12, 11	19	2/21/2013	(180.50)	1	0	In compliance The District reported the same salary twice.
2	DT	Beach	6/30/12, 11	40	3/25/2013	0.00	0	0	In compliance No written agreements for summer school.
3	LM	Belcourt	6/30/12, 11	150	3/5/2013	0.00	1	3	In compliance Reported service hours incorrectly; did not issue written agreements for summer teachers; and reported salary in the wrong fiscal year.
4	LM	Bismarck	6/30/11, 10	1054	9/13/2012	0.00	0	0	In compliance No errors noted.
5	LM	Center-Stanton	6/30/12, 11	26	4/4/2013	0.00	0	0	In compliance No exceptions noted.
6	LM	Drake	6/30/12, 11	13	3/25/2013	0.00	0	0	In compliance Did not report subbing for a member-isolated occurrence.
7	LM	Dunseith	6/30/12, 11	56	4/30/2013	35,690.59	51	0	Not in compliance Did not report eligible summer training/workshops, summer salary, tutoring; reported ineligible signing bonuses; reported salary in the wrong fiscal year; and did not issue written for part-time and summer school teachers.
8	LM	Enderlin	6/30/12, 11	36	3/21/2013	0.00	0	0	In compliance No exceptions noted.
9	LM	Fessenden-Bowdon	6/30/12, 11	19	4/4/2013	0.00	0	0	In compliance No exceptions noted.
10	LM	Fort Yates 100% audit	6/30/10, 09	88	1/16/2013	2,734.78	25	1	Not in compliance Reported ineligible salary-unused leave, bus driving, signing bonus; did not report eligible salary-bonus, contract, and summer; reported salary in the wrong fiscal year; reported incorrect contract salary and undocumented salary; did not have written agreements for out-of-district teachers; and reported service hours incorrectly.

North Dakota Retirement and Investment Office
 SCHOOL DISTRICT COMPLIANCE AUDITS
 For the Fiscal Year 7/1/2012 though June 30, 2013

			FISCAL YEARS	MEMBERS IN DISTRICT	REPORT DATE	MEMBER/ EMPLOYER CONTRIB'S DR(CR)	MEMBER'S SALARIES ADJUSTED	MEMBER SERVICE CREDIT ADJUSTED	STATUS
In compliance			38						
Generally in compliance			1						
Not in compliance			6						
			45						
11	LM	Hankinson	6/30/12, 11	31	4/24/2013	(539.50)	1	0	In compliance Reported ineligible cell phone stipend.
12	DT	Hazen	6/30/12, 11	50	5/13/2013	0.00	0	1	In compliance Did not have written agreements for out-of-district summer teachers; reported service hours incorrectly for a part-time member; and discontinued health insurance on an individual basis for a member.
13	DT	Kenmare	6/30/12, 11	32	5/23/2013	0.00	0	1	In compliance The District does not issue written agreements to summer school teachers; and reported services hours incorrectly for a part-time teacher.
14	LM	Killdeer	6/30/11, 10	45	9/18/2012	0.00	0	0	In compliance The District did not issue written agreements for summer school.
15	DT	Kindred 100% audit	6/30/11, 10	52	2/27/2013	22,229.07	30	0	Not in compliance. The District had software programming issues where TFFR reportable salary and contributions was calculated incorrectly; reported salary in the wrong fiscal year; and did not issue written agreements for summer salary.
16	LM	Mapleton	6/30/12, 11	11	5/16/2013	0.00	0	0	In compliance The District did not report subbing salary for one member and reported service hours incorrectly for one member.
17	DT	McClusky	6/30/11, 10	22	7/30/2012	(2,442.87)	7	6	Not in compliance Reported salary in the wrong fiscal year; did not report eligible contract salary; reported ineligible subbing and recruiting bonuses; service hours incorrect for part-time teachers; and no written agreement for summer special education.
18	LM	Minnewauken 100% audit	6/30/11, 10	33	3/12/2013	8,018.22	19	1	Not in compliance District reported ineligible reimbursed leave, bus driving, bonus, para-professional, and janitorial salary; did not report eligible contract, extra-curricular, and summer salary; reported salary in the wrong fiscal year; and did not have written agreements for out-of-district teachers.
19	DT	Mott-Regent	6/30/11, 10	31	11/6/2012	0.00	0	0	In compliance No exceptions noted.

LM 25 audits
 DT 20 audits

North Dakota Retirement and Investment Office
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 For the Fiscal Year 7/1/2012 though June 30, 2013

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In compliance			38					LM 25 audits	
Generally in compliance			1					DT 20 audits	
Not in compliance			6						
			<u>45</u>						
20	LM	Mt. Pleasant	6/30/12, 11	33	5/13/2013	0.00	4	0	In compliance The District reported summer salary in the wrong fiscal year; and did not report eligible curriculum mapping salary.
21	DT	Napoleon	6/30/11, 10	29	11/9/2012	(464.01)	1	1	In compliance The District reported ineligible subbing; did not report eligible subbing; did not have written agreements for summer salary.
22	LM	Newburg	6/30/11, 10	19	9/13/2012	0.00	0	0	In compliance No errors noted.
23	DT	New England	6/30/11, 10	21	7/17/2012	0.00	0	0	In compliance No errors noted.
24	LM	New Rockford/Sheyenne	6/30/12, 11	35	6/12/2013	0.00	0	0	In compliance District did not have a written agreement for summer salary.
25	DT	New Salem - Almont	6/30/12, 11	31	5/31/2013	0.00	0	1	In compliance District did not have written agreements for summer school; reported service hours incorrectly for two part-time teachers; and did not report eligible noon hour salary.
26	DT	New Town	6/30/11, 10	76	5/15/2013	340.48	3	1	In compliance District did not report eligible salary; reported ineligible bus driving salary; did not have written agreements for summer salary; reported service hours incorrectly for a member; and longevity and loyalty bonuses are not reportable.
27	LM	North Sargent	6/30/12, 11	25	4/29/2013	0.00	0	1	In compliance Reported service hours incorrectly.
28	DT	North Star	6/30/11, 10	31	1/16/2013	0.00	0	0	In compliance District did not have written agreements for out-of-district teachers; and no written agreements for summer salary.
29	LM	Northern Cass	6/30/12, 11	48	5/20/2013	(643.92)	1	0	In compliance The District reported ineligible bus driving salary; reported the wrong contract salary; and did not issue written agreements for summer salary.
30	DT	Northwood	6/30/11, 10	28	12/13/2012	(69.34)	1	0	In compliance The District did not have written agreements for summer salary; and reported ineligible teacher's aide salary.

North Dakota Retirement and Investment Office
 SCHOOL DISTRICT COMPLIANCE AUDITS
 For the Fiscal Year 7/1/2012 through June 30, 2013

			FISCAL YEARS	MEMBERS IN DISTRICT	REPORT DATE	MEMBER/ EMPLOYER CONTRIB'S DR(CR)	MEMBER'S SALARIES ADJUSTED	MEMBER SERVICE CREDIT ADJUSTED	STATUS
In compliance			38						
Generally in compliance			1					LM 25 audits DT 20 audits	
Not in compliance			6						
			<u>45</u>						
31	DT	Oakes	6/30/12, 11	38	6/14/2013	0.00	0	0	In compliance District did not issue written agreements for summer school.
32	DT	Park River	6/30/11, 10	48	3/12/2013	0.00	0	0	In compliance The District did not issue written agreements for extra-curricular and summer salary.
33	DT	Powers Lake 100% audit	6/30/11, 10	23	1/3/2013	2,933.77	17	0	Not in compliance Reported salary in the wrong fiscal year; reported ineligible salary-busing, cleaning, flex cash, mileage/meals, and special education aide; no written agreements for summer salary; did not report eligible salary-conference, drama, and in-service; and software programming error (deductions) - caused wrong retirement salary to be reported.
34	DT	Richtland (Colfax)	6/30/12, 11	34	5/15/2013	0.00	0	0	In compliance District reported salary in the wrong fiscal year; reported ineligible bus driving salary; and did not have a written agreement for Driver's Education salary.
35	LM	Rolette	6/30/11, 10	23	2/21/2013	(184.56)	5	0	Generally in compliance The District reported ineligible leave reimbursement and expense reimbursement; did not report eligible contract and extra-curricular salary; and did not issue written agreements for all summer programs.
36	LM	Rural Cass Special Ed.	6/30/12, 11	20	5/1/2013	(2,627.85)	1	0	In compliance Reported an ineligible annuity to TFFR.
37	LM	St. Thomas	6/30/12, 11	18	5/29/2013	0.00	0	0	In compliance No findings noted.
38	LM	Sawyer	6/30/12, 11	21	5/10/2012	0.00	0	0	In compliance Did not issue written agreements for summer salary.
39	DT	Souris Valley Special Ed.	6/30/12, 11	28	2/20/2013	0.00	0	0	In compliance Did not issue a written agreement to two members reported to TFFR (part-time teacher and out-of-district summer administrator).
40	LM	Stanley	6/30/12, 11	56	2/25/2013	0.00	0	0	In compliance No errors were noted.

North Dakota Retirement and Investment Office
 SCHOOL DISTRICT COMPLIANCE AUDITS
 For the Fiscal Year 7/1/2012 though June 30, 2013

			FISCAL YEARS	MEMBERS IN DISTRICT	REPORT DATE	MEMBER/ EMPLOYER CONTRIB'S DR(CR)	MEMBER'S SALARIES ADJUSTED	MEMBER SERVICE CREDIT ADJUSTED	STATUS
In compliance			38						
Generally in compliance			1					LM 25 audits DT 20 audits	
Not in compliance			6						
			45						
41	DT	Strasburg	6/30/12, 11	20	3/8/2013	0.00	0	1	In compliance Reported service hours incorrectly for part-time members.
42	DT	Thompson	6/30/12, 11	37	4/5/2013	329.26	1	0	In compliance Reported a retirement salary incorrectly; reported ineligible ticket-taking; no written agreements for summer salary; and noted a bonus paid to members is no longer reportable.
43	LM	Underwood	6/30/12, 11	29	2/7/2013	0.00	0	0	In compliance No exceptions noted.
44	LM	Upper Valley Spec. Ed.	6/30/12, 11	45	5/20/2013	0.00	0	1	In compliance The District reported service hours incorrectly.
45	DT	Wahpeton	6/30/12, 11	112	6/14/2013	(73.84)	1	0	In compliance District reported salary in the wrong fiscal year; did not have written agreements for two out-of-district summer teachers; and reported adult education salary without a written agreement.
Totals			2,736			65,049.78	170	19	

Not in Compliance reviews:

1	LM	Eight Mile	6/30/2012		5/8/2013	0.00	0	0	In compliance No exceptions noted.
2	LM	Halliday	6/30/2012		6/28/2013	763.03	1	1	Not in compliance Will look at again 2014/15.
3	DT	Solen-Cannonball	6/30/2012		6/27/2013	0.00	0	0	In compliance No exceptions noted.
4	DT	Velva	6/30/2012		5/1/2013	0.00	0	0	In compliance No exceptions noted.

North Dakota Retirement and Investment Office
SCHOOL DISTRICT AUDIT PROGRESS AND STATUS REPORT
 For The Fiscal Year July 1, 2012 - June 30, 2013

Auditor	School District	on-site audit	Info Request	Info Received	Audit Started	Report Date	Status	Members	days b/w info request and received	days b/w info received and report	days b/w info received & start date	days b/w start and report	hours to complete		
100%	LM	Fort Yates	x	1/7/2011	7/15/2011	8/1/2011	1/16/2013	Done	88	189	551	17	534	Not In Compliance	193
100%	DT	Kindred		12/13/2011	12/28/2011	4/19/2012	2/27/2013	Done	52	15	427	113	314	Not In Compliance	244
100%	DT	Powers Lake		12/3/2011	12/21/2011	5/30/2012	1/3/2013	Done	23	18	379	161	218	Not In Compliance	232
100%	LM	Minnewaukan		5/24/2012	6/28/2012	10/5/2012	3/12/2013	Done	33	35	257	99	158	Not In Compliance	145
	DT	New Town		7/17/2012	8/16/2012	1/10/2013	5/15/2013	Done	76	30	272	147	125	In Compliance	80
	DT	Mott-Regent		5/24/2012	6/8/2012	7/19/2012	11/6/2012	Done	31	15	151	41	110	In Compliance	59
	DT	Napoleon		5/24/2012	6/20/2012	7/25/2012	11/9/2012	Done	29	27	142	35	107	In Compliance	79
	DT	North Star		7/17/2012	8/6/2012	11/2/2012	1/16/2013	Done	31	20	163	88	75	In Compliance	60
	DT	McClusky		2/28/2012	3/21/2012	5/18/2012	7/30/2012	Done	22	22	131	58	73	Not In Compliance	60
	DT	Park River		7/17/2012	8/13/2012	1/8/2013	3/12/2013	Done	48	27	211	148	63	In Compliance	33
100%	LM	Dunseith	x	11/15/2012	12/17/2012	2/28/2013	4/30/2013	Done	56	32	134	73	61	Not In Compliance	71
	DT	Hazen		2/20/2013	3/12/2013	3/15/2013	5/13/2013	Done	50	20	62	3	59	In Compliance	48
	DT	Northwood		7/17/2012	8/6/2012	10/25/2012	12/13/2012	Done	28	20	129	80	49	In Compliance	55
	LM	Bismarck		12/12/2011	12/21/2011	8/4/2012	9/11/2012	Done	28	8	265	227	38	In Compliance	47
	DT	Thompson		11/15/2012	12/17/2012	2/27/2013	4/5/2013	Done	37	32	109	72	37	In Compliance	33
	LM	Rolette		7/17/2012	9/5/2012	1/22/2013	2/21/2013	Done	23	50	169	139	30	Generally In Compliance	58
	LM	Belcourt		11/15/2012	11/29/2012	2/5/2013	3/6/2013	Done	150	14	97	68	29	In Compliance	46
	DT	New England		5/24/2012	6/8/2012	6/20/2012	7/17/2012	Done	21	15	39	12	27	In Compliance	15
	LM	Killdeer		2/28/2012	3/21/2012	8/23/2012	9/18/2012	Done	45	22	181	155	26	In Compliance	33
	DT	Souris Valley Special Ed		11/15/2012	11/23/2012	1/26/2013	2/20/2013	Done	28	8	89	64	25	In Compliance	23
	LM	Stanley		11/15/2012	11/30/2012	2/1/2013	2/25/2013	Done	56	15	87	63	24	In Compliance	21
	LM	Mt. Pleasant		3/15/2013	4/18/2013	4/22/2013	5/13/2013	Done	33	34	25	4	21	In Compliance	33
	LM	Newburg		5/24/2012	6/21/2012	8/30/2012	9/13/2012	Done	19	28	84	70	14	In Compliance	25
	LM	Fessenden-Bowdon		2/20/2013	3/19/2013	3/21/2013	4/4/2013	Done	19	27	16	2	14	In Compliance	27
	DT	Beach		11/15/2012	12/3/2012	3/12/2013	3/25/2013	Done	40	18	112	99	13	In Compliance	22
	LM	Center-Stanton		2/20/2013	3/20/2013	3/22/2013	4/4/2013	Done	26	28	15	2	13	In Compliance	19
	LM	Rural Cass Spec Ed		3/15/2013	4/1/2013	4/18/2013	5/1/2013	Done	20	17	30	17	13	In Compliance	27
	LM	Drake		11/15/2012	12/24/2012	3/13/2013	3/25/2013	Done	13	39	91	79	12	In Compliance	18
	LM	Hankinson		2/20/2013	3/21/2013	4/12/2013	4/24/2013	Done	31	29	34	22	12	In Compliance	23
	DT	Strasburg		11/15/2012	12/14/2012	2/25/2013	3/8/2013	Done	20	29	84	73	11	In Compliance	19
	LM	North Sargent		3/15/2013	4/1/2013	4/19/2013	4/29/2013	Done	25	17	28	18	10	In Compliance	22
	LM	Ashley		11/15/2012	12/17/2012	2/12/2013	2/21/2013	Done	19	32	66	57	9	In Compliance	17
	LM	Enderlin		11/15/2012	12/17/2012	3/12/2013	3/21/2013	Done	36	32	94	85	9	In Compliance	19
	LM	Sawyer		3/15/2013	4/11/2013	5/1/2013	5/10/2013	Done	21	27	29	20	9	In Compliance	26
	DT	Richland (Colfax)		3/15/2013	4/1/2013	5/7/2013	5/15/2013	Done	34	17	44	36	8	In Compliance	27
	LM	Underwood		11/15/2012	11/27/2012	2/4/2013	2/7/2013	Done	29	12	72	69	3	In Compliance	12
	LM	Mapleton Elementary		4/16/2013	4/30/2013	5/8/2013	5/16/2013	Done	11	14	16	8	8	In Compliance	16
	LM	Northern Cass		3/15/2013	4/8/2013	5/6/2013	5/20/2013	Done	48	24	42	28	14	In Compliance	17
	LM	Upper Valley Spec Ed		4/16/2013	5/2/2013	5/10/2013	5/20/2013	Done	46	16	18	8	10	In Compliance	18
	DT	Kenmare		2/20/2013	3/11/2013	3/25/2013	5/21/2013	Done	32	19	71	14	57	In Compliance	54
	LM	St. Thomas		4/16/2013	5/15/2013	5/16/2013	5/29/2013	Done	15	29	14	1	13	In Compliance	13
	DT	New Salem-Almont		3/15/2013	4/12/2013	4/24/2013	5/31/2013	Done	31	28	49	12	37	In Compliance	27
	DT	Oakes		3/15/2013	4/1/2013	5/17/2013	6/12/2013	Done	38	17	72	46	26	In Compliance	17

SCHOOL DISTRICT AUDIT PROGRESS AND STATUS REPORT
For The Fiscal Year July 1, 2012 - June 30, 2013

Auditor	School District	on-site audit	Info Request	Info Received	Audit Started	Report Date	Status	Members	days b/w info request and received	days b/w info received and report	days b/w info received & start date	days b/w start and report	In Compliance	hours to complete
LM	New Rockford-Sheyenne		4/16/2013	5/20/2013	5/28/2013	6/12/2013	Done	34	34	23	8	15	In Compliance	22
DT	Wahpeton		11/15/2012	11/23/2012	1/15/2013	6/14/2013	Done	112	8	203	53	150	In Compliance	53
								Average	38	27	119	60	29	31

Complete audits	Total Audit Days	Average Audit Days
20 DT	1,584	79.2
25 LM	1,099	44.0

NOT IN COMPLIANCE FOLLOW-UP REVIEWS

Auditor	School District	on-site audit	Info Request	Info Received	Review Started	Report Date	Status	Members	days b/w info request and received	days b/w info received and report	days b/w info received & start date	days b/w start and report	In Compliance	hours to complete
DT	Velva		3/5/2013	3/27/2013	4/1/2013	5/1/2013	Done	43	22	35	5	30	In Compliance	14
LM	Eight Mile		4/25/2013	5/6/2013	5/7/2013	5/8/2013	Done	21	11	2	1	1	In Compliance	9
LM	Halliday		4/25/2013	5/1/2013	5/6/2013	6/28/2013	Done	12	6	58	5	53	Not in compliance	16
DT	Solen-Cannon Ball		4/5/2013	5/20/2013	5/24/2013	6/27/2013	Done	34	45	38	4	34	In Compliance	20
								Average	28	21	33	4	30	15

Complete reviews	Total Review Days	Average Review Days
2 DT	64	32.0
2 LM	54	27.0

North Dakota Retirement and Investment Office
THIRD AUDIT CYCLE FOR SCHOOL DISTRICT AUDITS
January 2010 to June 2013

Total Members served in the third audit cycle	10,138
Total Audits completed in the third audit cycle	108
Remaining Districts to be audited	<u>64</u>
Total Audits in the third cycle	<u><u>172</u></u>

In compliance	87
Generally in compliance	10
Not in compliance	<u>11</u>
	108

10 members or less	29 (Not audited)
State agencies/or other	19 (Not audited)
Consolidations/closures	11
More than 10 members	<u>172 (audited)</u>
Total District	<u><u>231</u></u>

FISCAL YEAR 2009/ 2010 (finished cycle 2 and started cycle 3-one-half of the year)

Barnes County North	3/26/2010	47	Generally in compliance		
Belfield	5/17/2010	27	In compliance		
Bottineau	4/29/2010	63	In compliance		
Central Cass	6/21/2010	64	In compliance		
Edinburg	5/27/2010	16	In compliance	I/C	16
Ellendale	5/12/2010	35	In compliance	GIC	2
Garrison	6/3/2010	39	In compliance	NIC	0
Grenora	6/22/2010	16	In compliance	Audits	18
Harvey	5/17/2010	43	In compliance	Cycle 2	<u>17</u>
Larimore	1/12/2010	51	In compliance		35
Lidgerwood	5/3/2010	21	In compliance		
Max	1/19/2010	23	In compliance		
Roosevelt/Carson	4/30/2010	21	In compliance		
Rugby	3/15/2010	59	In compliance		
Sargent Central	1/15/2010	27	Generally in compliance		
Scranton	4/13/2010	21	In compliance		
South Valley Spec. Education	11/12/2009	39	In compliance		
Valley City School	2/8/2010	85	In compliance		
18			697 Teachers		

FISCAL YEAR 2010/ 2011 (full year)

Alexander	2/14/2011	14	In compliance		
Bowman	8/11/2010	47	Generally in compliance		
Burke Central	7/29/2010	22	In compliance		
Glenburn	6/16/2011	30	Generally in compliance	I/C	7
Grafton	4/5/2011	88	Generally in compliance	GIC	5
Griggs County Central	6/24/2011	65	Generally in compliance	NIC	2
Halliday	6/22/2011	12	Not in compliance	Audits	14
Hettinger	10/25/2010	35	In compliance		
Lakota	12/14/2010	26	In compliance		
Minot	7/22/2010	629	In compliance		
Tioga	4/14/2011	30	In compliance		
United	4/1/2011	49	Generally in compliance		
Velva	5/17/2011	49	Not in compliance		
Washburn	5/9/2011	27	In compliance		
14			1,123		

**North Dakota Retirement and Investment Office
THIRD AUDIT CYCLE FOR SCHOOL DISTRICT AUDITS
January 2010 to June 2013**

FISCAL YEAR 2011/ 2012 (full year)

Anamoose	7/25/2011	17	In compliance		
Beulah	1/6/2012	64	In compliance		
Bowbells	3/14/2012	13	In compliance		
Carrington	2/22/2012	51	In compliance		
Cavalier	12/30/2011	49	In compliance		
Central Valley	10/25/2011	24	In compliance		
Dakota Prairie	5/25/2012	37	In compliance		
Divide	12/29/2011	32	In compliance		
Drayton	11/8/2011	24	In compliance	I/C	26
Edgeley	5/29/2012	29	In compliance	GIC	2
Eight Mile	12/5/2011	24	Not in compliance	NIC	3
Fairmount	5/29/2012	17	In compliance	Audits	31
Finley-Sharon	5/21/2012	24	In compliance		
Gackle-Streeter	4/26/2012	15	Generally in compliance		
Hatton	6/13/2012	24	In compliance		
Hillsboro	1/4/2012	38	In compliance		
Hope	6/12/2012	11	In compliance		
Kidder County	3/14/2012	50	In compliance		
LaMoure	12/27/2011	29	In compliance		
Langdon Area Schools	4/3/2012	41	In compliance		
Leeds	10/27/2011	21	Generally in compliance		
Linton	1/23/2012	33	In compliance		
Lisbon	11/23/2011	56	In compliance		
Mandan	1/31/2012	297	In compliance		
Mandaree	5/21/2012	33	In compliance		
McKenzie County	8/4/2011	51	In compliance		
Milnor	6/6/2012	28	In compliance		
Richardton-Taylor	12/30/2011	31	In compliance		
Solen-Cannonball*	1/10/2012	41	2011/12 review required		
Williston	5/23/2012	198	Not in compliance		
Wilton	10/3/2011	23	In compliance		
		31			1,425

*District was not in compliance in 2008/09 and 2009/10 (second cycle). Audit policy is to review a sample of salary one year after the audit to ensure reporting practices were amended.

FISCAL YEAR 2012/ 2013 (full year)

Ashley	2/21/2013	19	In compliance		
Beach	3/25/2013	40	In compliance		
Belcourt	3/5/2013	150	In compliance		
Bismarck	9/13/2012	1054	In compliance		
Center-Stanton	4/4/2013	26	In compliance		
Drake	3/25/2013	13	In compliance		
Dunseith	4/30/2013	56	Not in compliance		
Enderlin	3/21/2013	36	In compliance		
Fessenden-Bowdon	4/4/2013	19	In compliance		
Fort Yates	1/16/2013	88	Not in compliance		
Hankinson	4/24/2013	31	In compliance		
Hazen	5/13/2013	50	In compliance		
Kenmare	5/23/2013	32	In compliance		
Killdeer	9/18/2012	45	In compliance		
Kindred	2/26/2013	52	Not in compliance		
Mapleton Elementary	5/16/2013	11	In compliance	I/C	38
McClusky	7/30/2012	22	Not in compliance	GIC	1

**North Dakota Retirement and Investment Office
 THIRD AUDIT CYCLE FOR SCHOOL DISTRICT AUDITS
 January 2010 to June 2013**

Minnewaukin	3/12/2013	33	Not in compliance	NIC	6
Mott-Regent	11/6/2012	31	In compliance	Audits	45
Mt. Pleasant	5/16/2013	33	In compliance		
Napoleon	11/9/2012	29	In compliance		
Newburg	9/13/2012	19	In compliance		
New England	7/17/2012	21	In compliance		
New Rockford/Sheyenne	6/12/2013	35	In compliance		
New Salem/Almont	5/31/2013	31	In compliance		
New Town	5/16/2013	76	In compliance		
North Sargent	4/29/2013	25	In compliance		
North Star	1/16/2013	31	In compliance		
Northern Cass	5/20/2013	48	In compliance		
Northwood	12/14/2012	28	In compliance		
Oakes	6/12/2013	38	In compliance		
Park River	3/12/2013	48	In compliance		
Powers Lake	1/3/2013	23	Not in compliance		
Richland (Colfax)	5/15/2013	34	In compliance		
Rolette	2/21/2013	23	Generally in compliance		
Rural Cass Special Ed.	5/1/2013	20	In compliance		
St. Thomas	5/29/2013	18	In compliance		
Sawyer	5/10/2013	21	In compliance		
Souris Valley	2/20/2013	28	In compliance		
Stanley	2/25/2013	56	In compliance		
Strasburg	3/8/2013	20	In compliance		
Thompson	4/5/2013	37	In compliance		
Underwood	2/7/2013	29	In compliance		
Upper Valley Spec. Ed.	5/20/2013	45	In compliance		
Wahpeton	6/14/2013	112	In compliance		

Not in compliance reviews:

Eight Mile	5/8/2013	Salaries OK-no further review
Halliday	6/28/2013	Salaries not in compliance - Will look at again September 2014
Solen-Cannonball	6/27/2013	Salaries OK-no further review
Velva	5/1/2013	Salaries OK-no further review

45

2,736

**REPORT ON NOT IN COMPLIANCE REVIEW
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
HALLIDAY SCHOOL
JUNE 28, 2013**

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

Independent reports are filed with the Interim Executive Director/Chief Retirement Officer of RIO and the Audit Committee of the State Investment Board (SIB).

SCOPE

This review is to determine whether the employer has corrected the errors made in the most recent compliance audit in accordance with the definition of salary as it appears in NDCC 15-39.1-04(9). The individual teacher contracts, payroll information, and additional information provided by the school district are used in the review.

A sample of three TFFR accounts was selected from members of the Halliday School (District) for the 2011-12 school year. The members' contracts and payroll information were reviewed and compared to salaries reported to TFFR. Because of an error found in the sample, additional information was requested for review.

In our opinion, for the fiscal year 2011-12, the Halliday School did not correct all findings noted in the compliance audit report and is therefore not in compliance.

FINDINGS

1. The District reported salary net of a deduction for rent for one member.
2. The District did not report substitute teaching for two members.

RECOMMENDATIONS AND CORRECTIVE ACTIONS

1. TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in determining which salary is TFFR eligible (Reporting Section). The website address is www.nd.gov/rio/TFFR/Publications. TFFR will notify the affected member of the changes to his account.
2. TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in determining which salary is TFFR eligible (Reporting Section). The website address is www.nd.gov/rio/TFFR/Publications. Combined with Finding 1 for one member, the amount is material and the member's account was corrected. TFFR will notify the affected member of the changes to his account. The other member's amount is immaterial; therefore, the account was not corrected.

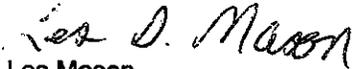
RECOMMENDATIONS AND CORRECTIVE ACTIONS, CONTINUED

The net amount due, plus interest for Findings 1 and 2 is \$763.03. The invoice for the amount due has been sent to the Business Manager. Please provide a written response on the District's intent to correct the above errors in future reporting to TFFR. **The amount due and the written response need to be received by the Retirement and Investment Office by July 29, 2013. Failure to comply may result in a fine or suspension of Department of Public Instructions, or both.**

Because the District is again not in compliance with TFFR reporting requirements, another review will be conducted in the next 12 – 18 months. If reporting errors continue to be found in future TFFR audits and reviews, the matter may be turned over to TFFR's legal counsel for further action.

The findings and recommendations in this review are based on state statutes and rules in effect during the review period. Legislative and rule changes may occur after the review period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

All accounts are reviewed as members notify the TFFR of their intent to retire.



Les Mason
Supervisor of Internal Audit

Enclosures

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
WAHPETON SCHOOL DISTRICT
JUNE 14, 2013**

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with the Interim Director-Retirement Officer of RIO upon completion, and the Audit Committee of the State Investment Board (SIB) quarterly.

SCOPE

This audit is designed to test the accuracy of retirement salaries reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the District for the 2010/11 through 2011/12 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. See Primary Test.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited. See Primary Test.

The Primary Test did not disclose any reporting procedure used by the District that would affect a large portion of the population for fiscal years 2010/11 through 2011/12. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDINGS

In our opinion, for the time period covered in the audit, the retirement salaries reported by the Wahpeton School District for the fiscal years 2010/11 through 2011/12 were in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following errors were noted:

1. The District reported summer salary in the wrong fiscal year for one member.
2. The District did not issue written agreements for summer salary for two out-of-district teachers.
3. The District reported adult education salary for a member without a written agreement.

RECOMMENDATIONS AND CORRECTIVE ACTION

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in determining when salary is reportable (Reporting Section). The website address is www.nd.gov/rio/TFFR/Publications.

Finding 1:

The District reported summer salary in the wrong fiscal year for one member. Summer salary is reportable in the fiscal year in which the pay is earned, not the month the salary is paid. Salary earned for most summer programs will be reported in two fiscal years. RIO will make an adjustment to the account and notify the member that a correction has been made. Due to the contribution rate changes, the error caused an overpayment in member/employer contributions (See Primary Test and Worksheet for Changes in Salaries and Contributions).

Finding 2:

The District does issue written agreements for summer school. However, the District reported student screening and weight room salary without a written agreement for two out-of-district teachers. If written agreements are not issued to teachers from outside the District or teachers without a continuing contract, salary would not be reportable to TFFR. A written agreement can be a contract, school board minutes or other official document evidencing a contractual relationship between a teacher and participating employer. RIO will not make corrections to the two accounts because the salary amounts were immaterial.

Finding 3:

The District reported salary for the Adult Education Director without a written agreement. The Wahpeton adult education budget documents and a grant application with the Department of Public Instruction listed salaries and noted the member as the Program Director. The Adult Education Program will be administered by the Southeast Region Career and Technology District beginning July 1, 2013. The Adult Education Director will be issued a written agreement by the Southeast Region District. The prior service reported by Wahpeton for the Adult Education Director will remain in TFFR.

Due to the differences in the contribution rates, the District overpaid member/employer contributions of \$73.84 for Finding 1. A refund check will be mailed to the Business Manager. Please provide a written response on the District's intent to correct the above errors in future reporting to TFFR. **The written response needs to be returned to the Retirement and Investment Office by July 17, 2013.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.



Dottie C. Thorsen
Internal Auditor

bh
Enclosures

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
OAKES SCHOOL DISTRICT
JUNE 14, 2013**

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with the Interim Director-Retirement Officer of RIO upon completion, and the Audit Committee of the State Investment Board (SIB) quarterly.

SCOPE

This audit is designed to test the accuracy of retirement salaries reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the District for the 2010/11 through 2011/12 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. See Primary Test.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited. See Primary Test.

The Primary Test did not disclose any reporting procedure used by the District that would affect a large portion of the population for fiscal years 2010/11 through 2011/12. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDING

In our opinion, for the time period covered in the audit, the retirement salaries reported by the Oakes School District for the fiscal years 2010/11 through 2011/12 were in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following error was noted:

The District did not issue written agreements for summer salary.

RECOMMENDATION AND CORRECTIVE ACTION

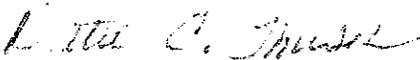
TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in determining when salary is reportable (Reporting Section). The website address is www.nd.gov/rio/TFFR/Publications.

The District stated that they do not issue written agreements for summer school. TFFR recommends that the District should issue some form of written agreement to district and out-of-district teachers for all summer salary. If written agreements are not issued to teachers from outside the District or teachers without a continuing contract, the summer salary would not be reportable to TFFR. A written agreement can be a contract, school board minutes or other official document evidencing a contractual relationship between a teacher and participating employer.

Please provide a written response on the District's intent to correct the above error in future reporting to TFFR. **The written response needs to be returned to the Retirement and Investment Office by July 11, 2013.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.



Dottie C. Thorsen
Internal Auditor

bh
Enclosures

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
NEW ROCKFORD-SHEYENNE PUBLIC SCHOOL
JUNE 12, 2013**

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An audit program has been established within RIO to carry out this responsibility. This is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with the Interim Executive Director of RIO-Retirement Officer of RIO and the Audit Committee of the State Investment Board (SIB).

SCOPE

This audit is designed to test the accuracy of retirement salaries reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the New Rockford-Sheyenne Public School (District) for the 2010-11 through 2011-12 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. See Primary Test.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited.

The Primary Test did not disclose any reporting procedure used by the District that would affect a large portion of the population for fiscal years 2010-11 through 2011-12. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDING

In our opinion, for the time period covered in the audit, the retirement salaries reported by the New Rockford-Sheyenne Public School for the fiscal years 2010-11 through 2011-12 were in compliance with the definition of salary as it appears in NDCC 15-39.1-04(9) except for the following:

The District did not issue a written agreement for the summer tech coordinator.

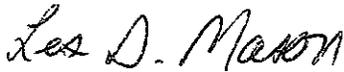
RECOMMENDATION

TFFR recommends that the District have written agreements for all part-time and summer school teachers.

Please provide a written response on the District's intent to correct the above error. **The response must be received by the Retirement and Investment Office by July 12, 2013.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.



Les Mason
Supervisor of Internal Audit

bh
Enclosures

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
NEW SALEM - ALMONT SCHOOL DISTRICT
MAY 31, 2013**

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with the Interim Director-Retirement Officer of RIO upon completion, and the Audit Committee of the State Investment Board (SIB) quarterly.

SCOPE

This audit is designed to test the accuracy of retirement salaries reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the District for the 2010/11 through 2011/12 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. See Primary Test.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited. See Primary Test.

The Primary Test did not disclose any reporting procedure used by the District that would affect a large portion of the population for fiscal years 2010/11 through 2011/12. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDINGS

In our opinion, for the time period covered in the audit, the retirement salaries reported by the New Salem - Almont School District for the fiscal years 2010/11 through 2011/12 were in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following errors were noted:

1. The District did not issue written agreements for summer salary.
2. The District reported services hours incorrectly for two part-time members.
3. The District did not report eligible noon hour salary.

RECOMMENDATION AND CORRECTIVE ACTIONS

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in determining when salary is reportable (Reporting Section). The website address is www.nd.gov/rio/TFFR/Publications.

Finding 1:

The District stated that they do not issue written agreements for summer school. TFFR recommends that the District should issue some form of written agreement to district and out-of-district teachers for all summer salary. If written agreements are not issued to teachers from outside the District or teachers without a continuing contract, the summer salary would not be reportable to TFFR. A written agreement can be a contract, school board minutes or other official document evidencing a contractual relationship between a teacher and participating employer.

Finding 2:

The District reported service hours incorrectly to TFFR for two part-time members. RIO will adjust one member's account and notify her about the correction (See Schedule 5 for the Member). Since the second member has closed her account with TFFR, no correction was made.

Finding 3:

The District did not report eligible noon hour salary for eight members in 2011/12. This was the first fiscal year the District started paying their teachers for lunch duty. Since all of the salaries not reported to TFFR were immaterial amounts, the member's accounts will not be corrected (See Primary Test).

Please provide a written response on the District's intent to correct the above error in future reporting to TFFR. **The written response needs to be returned to the Retirement and Investment Office by July 9, 2013.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.



Dottie C. Thorsen
Internal Auditor

bh
Enclosures

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
ST. THOMAS SCHOOL
MAY 29, 2013**

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An audit program has been established within RIO to carry out this responsibility. This is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with the Interim Executive Director of RIO-Retirement Officer of RIO and the Audit Committee of the State Investment Board (SIB).

SCOPE

This audit is designed to test the accuracy of retirement salaries reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the St. Thomas School (District) for the 2010-11 through 2011-12 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. See Primary Test.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited.

The Primary Test did not disclose any reporting procedure used by the District that would affect a large portion of the population for fiscal years 2010-11 through 2011-12. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDING

In our opinion, for the time period covered in the audit, the retirement salaries reported by the St. Thomas School for the fiscal years 2010-11 through 2011-12 were in compliance with the definition of salary as it appears in NDCC 15-39.1-04(9).

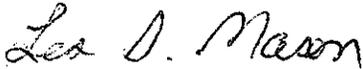
- None

RECOMMENDATION

- None

Any findings and recommendations in this compliance audit would have been based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.



Les Mason
Supervisor of Internal Audit

bh
Enclosures

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
KENMARE SCHOOL DISTRICT
MAY 23, 2013**

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with the Interim Director-Retirement Officer of RIO upon completion, and the Audit Committee of the State Investment Board (SIB) quarterly.

SCOPE

This audit is designed to test the accuracy of retirement salaries reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the District for the 2010/11 through 2011/12 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. See Primary Test.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited. See Primary Test.

The Primary Test did not disclose any reporting procedure used by the District that would affect a large portion of the population for fiscal years 2010/11 through 2011/12. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDINGS

In our opinion, for the time period covered in the audit, the retirement salaries reported by the Kenmare School District for the fiscal years 2010/11 through 2011/12 were in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted.

1. The District does not issue written agreements to summer school teachers.
2. The District reported service hours incorrectly for one member.

RECOMMENDATIONS AND CORRECTIVE ACTION

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is www.nd.gov/rio/TFFR/Publications.

Finding 1:

The District does not issue written agreements for summer salary. I reviewed the salary for one member who taught summer school. Her summer salary was approved by the Board because of Title I funding (other official document). The District did not issue written agreements for Driver's Education and other summer classes. TFFR recommends that the District should issue some form of written agreement to district and out-of-district teachers for all summer salary. A written agreement can be a contract, school board minutes or other official document evidencing a contractual relationship between a teacher and participating employer. In the future, if written agreements are not issued to teachers from outside the District or teachers without a continuing contract, the summer salary would not be reportable to TFFR.

Finding 2:

The District reported service hours incorrectly to TFFR for one member who left the District before the fiscal year ended. Since she has closed her account with TFFR, RIO will not adjust the member's service hours (See Schedule 5 for the member).

Please provide a written response on the District's intent to correct the above errors, including issuing written agreements for summer duties, in future reporting to TFFR. **The written response needs to be returned to the Retirement and Investment Office by June 25, 2013.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.



Dottie C. Thorsen
Internal Auditor

Enclosures

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
NORTHERN CASS SCHOOL DISTRICT
MAY 20, 2013**

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An audit program has been established within RIO to carry out this responsibility. This is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with the Interim Executive Director of RIO-Retirement Officer of RIO and the Audit Committee of the State Investment Board (SIB).

SCOPE

This audit is designed to test the accuracy of retirement salaries reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the Northern Cass School (District) for the 2010-11 through 2011-12 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. See Primary Test.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited.

The Primary Test did not disclose any reporting procedure used by the District that would affect a large portion of the population for fiscal years 2010-11 through 2011-12. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDINGS

In our opinion, for the time period covered in the audit, the retirement salaries reported by the Northern Cass School District for the fiscal years 2010-11 through 2011-12 were in compliance with the definition of salary as it appears in NDCC 15-39.1-04(9), except for the following items:

1. The District reported a portion of one member's bus driving salary.
2. The District over-reported contract salary for one member.
3. The District did not issue written agreements for all summer school activity.

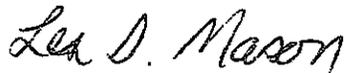
RECOMMENDATIONS

1. This was an isolated occurrence, where the remaining bus driving salary was properly not reported. The amount is immaterial and no correction was made. TFFR recommends that the District use care in properly reporting eligible salary.
2. The District entered the incorrect amount into the software program and caught the error at a later time. The business manager informed the TFFR Audit Unit of the error at the time information was requested for the compliance audit. The member is paying back the amount overpaid. A refund check for \$643.92 is included, and the member's account has been corrected for the 2010-11 school year. This was an isolated incident, and no other members were affected. TFFR recommends that the District use care in properly reporting eligible salary.
3. TFFR recommends that the District issue written agreements for all summer school and part-time teachers.

Please provide a written response on the District's intent to correct the above errors, including issuing written agreements for all summer school and part-time members. **The response must be received by the Retirement and Investment Office by June 21, 2013.**

Findings and recommendations in this compliance audit were based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.



Les Mason
Supervisor of Internal Audit

Enclosures

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
UPPER VALLEY SPECIAL EDUCATION UNIT
MAY 20, 2013**

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An audit program has been established within RIO to carry out this responsibility. This is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with the Interim Executive Director of RIO-Retirement Officer of RIO and the Audit Committee of the State Investment Board (SIB).

SCOPE

This audit is designed to test the accuracy of retirement salaries reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the Upper Valley Special Education Unit (District) for the 2010-11 through 2011-12 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. See Primary Test.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited.

The Primary Test did not disclose any reporting procedure used by the District that would affect a large portion of the population for fiscal years 2010-11 through 2011-12. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDING

In our opinion, for the time period covered in the audit, the retirement salaries reported by the Upper Valley Special Education Unit for the fiscal years 2010-11 through 2011-12 were in compliance with the definition of salary as it appears in NDCC 15-39.1-04(9) except for the following item:

- The District under-reported service credit hours for two members for the 2010-11 school year.

RECOMMENDATION

- These were isolated incidents. The business manager made the changes known to the RIO internal audit unit. One member works in multiple districts, earning a full year of service credit . No correction will be made to his account. TFFR will correct the other member's account and notify her of the correction. TFFR recommends the District use care in reporting service credit hours.

Findings and recommendations in this compliance audit were based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.

Les D. Mason

Les Mason
Supervisor of Internal Audit

Enclosures

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
MAPLETON ELEMENTARY SCHOOL
MAY 16, 2013**

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An audit program has been established within RIO to carry out this responsibility. This audit is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with the Interim Executive Director-Retirement Officer and the Audit Committee of the State Investment Board (SIB).

SCOPE

The TFFR compliance audit is designed to test the accuracy of retirement salaries reported by Mapleton Elementary School (District) to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The District's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, individual teacher contracts, and payroll records are used in the examination.

TFFR reviewed the accounts for selected members' salaries reported by the District for the 2010-11 and 2011-12 school years. We calculated the member and employer contributions due to TFFR based on the payroll information provided by the District. The results are then compared to the amounts actually reported to TFFR by the District for the years being audited.

It is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDINGS

It is our opinion that retirement salaries reported by Mapleton Elementary School for the fiscal years 2010-11 and 2011-12 were in compliance with the definition of salary as it appears in NDCC 15-39.1-04(9) except for the following item:

1. The District did not report subbing pay for one member.
2. The District over-reported service credit hours for one member.

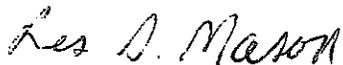
RECOMMENDATIONS

1. This was an isolated incident and the amount is immaterial. No correction has been made to the member's account. TFFR recommends that the District use care in reporting eligible salary.
2. This was an isolated incident. The member no longer works in North Dakota and has taken a refund of the account balance. The information has been included with her account, but no correction was made.

For any assistance in determining what salary is reportable to TFFR and how to calculate service hours, refer to the TFFR Employer Guide, and/or the Administrative Office. The website address is: <http://www.nd.gov/rio/TFFR/Publications/EmployerGuide-intro.htm>

Any findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify TFFR of their intent to retire.



Les Mason
Supervisor of Internal Audit

bh
Enclosures

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
RICHLAND SCHOOL DISTRICT
MAY15, 2013**

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with the Interim Director-Retirement Officer of RIO upon completion, and the Audit Committee of the State Investment Board (SIB) quarterly.

SCOPE

This audit is designed to test the accuracy of retirement salaries reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the District for the 2010/11 through 2011/12 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. See Primary Test.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited. See Primary Test.

The Primary Test did not disclose any reporting procedure used by the District that would affect a large portion of the population for fiscal years 2010/11 through 2011/12. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDING

In our opinion, for the time period covered in the audit, the retirement salaries reported by the Richland School District for the fiscal years 2010/11 through 2011/12 were in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following errors were noted.

1. The District reported salary in the wrong fiscal year for one member.
2. The District reported ineligible bus driving salary for one member.
3. The District did not issue a written agreement for Driver's Education salary.

RECOMMENDATION AND CORRECTIVE ACTION

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is www.nd.gov/rio/TFFR/Publications.

Finding 1:

The District reported the experience increment for a coaching contract in the wrong fiscal year. This error was an isolated occurrence. Since the amount of the salary was immaterial, RIO will not correct the retirement salary.

Finding 2:

The District reported ineligible bus driving salary to TFFR as retirement salary. This error was an isolated occurrence. Since the amount of the salary was immaterial, RIO will not correct the retirement salary.

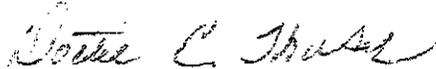
Finding 3:

The District did not issue a written agreement for Driver's Education salary for a teacher with a continuing contract for fiscal years 2010/11 and 2011/12. The District does issue some form of a written agreement for other summer school classes. For the current year, the District noted the Driver's Education salary in the Board Minutes. TFFR recommends that the District should issue some form of written agreement to district and out-of-district teachers for all summer salary. A written agreement can be a contract, school board minutes or other official document evidencing a contractual relationship between a teacher and participating employer. If written agreements are not issued to teachers from outside the District or teachers without a continuing contract, the summer salary would not be reportable to TFFR.

Please provide a written response on the District's intent to correct the above error in future reporting to TFFR. **The written response needs to be returned to the Retirement and Investment Office by June 18, 2013.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.



Dottie C. Thorsen
Internal Auditor

bh
Enclosures

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
NEW TOWN SCHOOL DISTRICT
MAY 15, 2013**

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with the Interim Director-Retirement Officer of RIO upon completion, and the Audit Committee of the State Investment Board (SIB) quarterly.

SCOPE

This audit is designed to test the accuracy of retirement salaries reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the District for the 2009/10 through 2010/11 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. See Primary Test.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited. See Primary Test.

The Primary Test did not disclose any reporting procedure used by the District that would affect a large portion of the population for fiscal years 2009/10 through 2010/11. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDINGS

In our opinion, for the time period covered in the audit, the retirement salaries reported by the New Town School District for the fiscal years 2009/10 through 2010/11 were in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted:

1. The District did not report eligible contract salary for three members.
2. The District reported ineligible bus driving salary for one member (isolated occurrence).
3. The District did not have written agreements for summer salary.
4. The District reported service hours incorrectly for one member.
5. The District pays members who have worked in their District longevity and loyalty bonuses that are not reportable to TFFR.

RECOMMENDATION AND CORRECTIVE ACTION

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in determining when salary is reportable (Reporting Section). The website address is www.nd.gov/rio/TFFR/Publications.

Finding 1:

The District did not report eligible salary for three members to TFFR. RIO will make the adjustments to the three accounts and notify the members that a correction has been made. It is the responsibility of the District to collect the member contributions due (See Primary Test and Worksheet for Changes in Salaries and Contributions).

Finding 2:

The District reported ineligible bus driving salary to TFFR for one member. No adjustment will be made to the account because the amount overpaid was immaterial (See Primary Test).

Finding 3:

The District stated that they do not issue written agreements for summer school unless they hire a teacher from outside the district. A written agreement can be a contract, school board minutes or other official document evidencing a contractual relationship between a teacher and participating employer. As a best practice, TFFR recommends that the District should issue some form of written agreement to the district as well as out-of-district teachers for all summer salary. If written agreements are not issued to teachers from outside the District or teachers without a continuing contract, the summer salary would not be reportable to TFFR.

Finding 4:

The District reported service hours incorrectly for one member who left their employment. RIO will adjust the member's account and notify her about the correction (See Schedule 5 for the member).

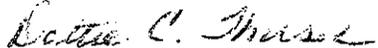
Finding 5:

The District pays some of the members who have worked in their District longevity and loyalty bonuses. These payments are not reportable to TFFR because they do not increase the member's base rate of pay, are not expected to recur or continue in future fiscal years, or are not expected to be a permanent salary increase. In 2011/12 and 2012/13, TFFR found that longevity payments were reported in error to TFFR. The District has corrected these errors and should take care to not report such payments in the future.

The amount due for Finding 1 is \$340.48 (Schedule 2). The billing invoice for the amount due will be sent to the Business Manager. Please provide a written response on the District's intent to correct the above findings in future reporting to TFFR. **The written response and contributions owed are due June 18, 2013.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.



Dottie C. Thorsen
Internal Auditor

bh
Enclosures

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
MT. PLEASANT SCHOOL
MAY 13, 2013**

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An audit program has been established within RIO to carry out this responsibility. Independent reports are filed with the Interim Director-Retirement Officer of RIO upon completion, and the Audit Committee of the State Investment Board (SIB) quarterly.

SCOPE

This audit is designed to test the accuracy of retirement salaries reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the Mt. Pleasant School (District) for the 2010/11 through 2011/12 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. See Primary Test.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited. See Primary Test.

The Primary Test did not disclose reporting procedures used by the District that would affect a large portion of the population for fiscal years 2010/11 through 2011/12, therefore there was no scope expansion. It is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDINGS

In our opinion, for the time period covered in the audit, the retirement salaries reported by the Mt. Pleasant School District for the fiscal years 2010/11 through 2011/12 were in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9) except for the following errors:

1. The District reported summer school in the wrong fiscal year for one member.
2. The District did not report eligible stipends for twenty-five members.

RECOMMENDATIONS AND CORRECTIVE ACTION

FINDING 1.

TFFR requires that salary be reported in the year it was earned, not when it was paid. TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in determining when salary is reportable to TFFR (Reporting Section). The website address is www.nd.gov/rio/TFFR/Publications.

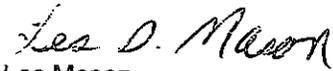
FINDING 2.

These stipends were paid for curriculum mapping in one school year and are eligible TFFR salary. The amounts are immaterial, and no corrections will be made. TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in determining what salary is reportable to TFFR (Reporting Section). The website address is www.nd.gov/rio/TFFR/Publications.

Please provide a written response on the District's intent to correct the above errors in future reporting to TFFR. **The written response must be returned to the Retirement and Investment Office by June 14, 2013.**

Determinations for the findings were based on review of available documentation and assistance from the Business Manager. The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.



Les Mason
Supervisor of Internal Audit

bh
Enclosures

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
HAZEN SCHOOL DISTRICT
MAY 13, 2013**

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with the Interim Director-Retirement Officer of RIO upon completion, and the Audit Committee of the State Investment Board (SIB) quarterly.

SCOPE

This audit is designed to test the accuracy of retirement salaries reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the District for the 2010/11 through 2011/12 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. See Primary Test.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited. See Primary Test.

The Primary Test did not disclose any reporting procedure used by the District that would affect a large portion of the population for fiscal years 2010/11 through 2011/12. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDINGS

In our opinion, for the time period covered in the audit, the retirement salaries reported by the Hazen School District for the fiscal years 2010/11 through 2011/12 were in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted.

1. The District did not issue written agreements to out-of-district teachers for summer salary.
2. The District reported service hours incorrectly for one part-time member.
3. The District discontinued a fully paid health and dental insurance policy on an individual basis for the Superintendent in 2011/12.

RECOMMENDATIONS AND CORRECTIVE ACTION

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is www.nd.gov/rio/TFFR/Publications.

Finding 1:

The District reported summer salary to TFFR for two out-of-district teachers. The District stated that they do not issue contracts or written agreements for summer school salary. A written agreement can be a contract, school board minutes or other official document evidencing a contractual relationship between a teacher and participating employer. The District does list summer school salary in the extra-curricular section of the Master Agreement. Listing the summer salary in the Master Agreement meets the definition of a written agreement for a teacher with a continuing contract. This listing does not meet the definition of a written agreement for an out-of-district teacher or a teacher without a continuing contract. In the future, if written agreements are not issued to teachers from outside the District or teachers without a continuing contract, the summer salary would not be reportable to TFFR. No corrections will be made to the two member's accounts for the audit period.

Finding 2:

The District reported service hours incorrectly to TFFR for one part-time member. RIO will adjust the member's account and notify her about the correction (See Schedule 5 for the member).

Finding 3:

The District discontinued fully paid health and dental insurance policies for the Superintendent on an individual basis. At this time, RIO did not deem this to be a conversion to salary since the value of the dropped benefits was greater than the salary increases reported for the member. However, RIO will monitor future salary increases that exceed the previous five percent increases to determine whether a conversion of a fringe benefit to salary occurs at a later date. If so, retirement salary for TFFR pension calculations purposes will be adjusted accordingly.

Please provide a written response on the District's intent to correct the above errors, including issuing written agreements for summer duties, in future reporting to TFFR. **The written response needs to be returned to the Retirement and Investment Office by June 14, 2013.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.



Dottie C. Thorsen
Internal Auditor

bh
Enclosures

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
SAWYER SCHOOL
MAY 10, 2013**

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An audit program has been established within RIO to carry out this responsibility. This is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with the Interim Executive Director of RIO-Retirement Officer of RIO and the Audit Committee of the State Investment Board (SIB).

SCOPE

This audit is designed to test the accuracy of retirement salaries reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the Sawyer School (District) for the 2010-11 through 2011-12 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. See Primary Test.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited.

The Primary Test did not disclose any reporting procedure used by the District that would affect a large portion of the population for fiscal years 2010-11 through 2011-12. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDING

In our opinion, for the time period covered in the audit, the retirement salaries reported by the Sawyer School for the fiscal years 2010-11 through 2011-12 were in compliance with the definition of salary as it appears in NDCC 15-39.1-04(9) except for the following item:

- The District did not issue written agreements for summer school teachers.

RECOMMENDATION

- TFFR recommends that written agreements for summer school teachers be issued to the members. Please provide a written response on the District's intent to issue written agreements to these members. **The written response needs to be returned to the Retirement and Investment Office by June 10, 2013.**

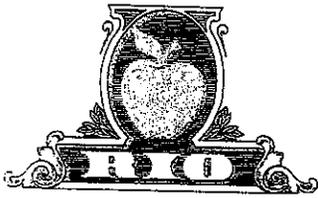
Findings and recommendations in this compliance audit were based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.



Les Mason
Supervisor of Internal Audit

bh
Enclosures



ND Retirement and Investment Office

*Teachers' Fund for Retirement
State Investment Board*

1930 Burnt Boat Drive
P.O. Box 7100
Bismarck, ND 58507-7100
Telephone 701-328-9885
Toll Free 800-952-2970
Fax 701-328-9897
www.nd.gov/rio

June 27, 2013

Judy Zins
Superintendent
Solen-Cannonball School District
PO Box 128
Solen ND 58570-0128

RE: Review of 2011/12 salary

Dear Ms. Zins:

In 2010, the North Dakota Retirement and Investment Office audited the Solen-Cannonball School District to determine whether salaries, service hours, and members reported to TFFR were in compliance with the North Dakota Century Code. The District was found to be not in compliance in a report dated June 21, 2010. For all Districts found not in compliance, the TFFR Board policy requires a follow-up review after the audit period to ensure that reporting procedures have been corrected.

In the follow-up review dated January 10, 2012, the Audit Division determined that all errors had been corrected except for Finding 1 of the original report. The District did not report all eligible salary to TFFR during fiscal year 2010/11 (Native American High Performing Learning Community salary and coaching salary). Since all the findings noted in the 2010 compliance audit report were not addressed in the review of salaries for fiscal year 2010/11, the Audit Division performed another review of salaries for the 2011/12 school year.

Audit Division staff reviewed payroll records and contracts requested from the District for three members reported to TFFR in fiscal year 2011/12. During the time of the audit review, retirement salaries reported to TFFR for Justin Fryer, Rhonda Krein, and Judy Zins were correct.

To ensure that eligible salary is reported to TFFR in the future, TFFR recommends that the District run a monthly and annual payroll summary report to compare the salary paid to the salary reported to TFFR on the TFFR Employer Summary Report. The District should reconcile any differences found and notify TFFR of any changes that need to be made to the retirement salary reported. TFFR provides the Employer Summary Report on an annual basis, but it can be printed on a monthly basis and sent to the District upon request.

Since all of the findings noted in the 2010 compliance audit report have been addressed in the review of salaries for fiscal year 2011/12, the Audit Division found the salaries reported by the District to be in compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). Accurate reporting of the member's retirement salary is very important for the retirement process. Please continue to review and improve your TFFR reporting procedures. If you have any questions regarding the review, please contact us at the Retirement and Investment Office.

Sincerely,

Fay Kopp
Interim Executive Director/
Chief Retirement Officer

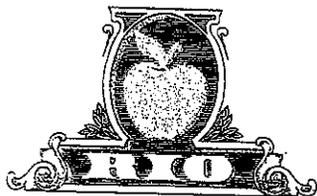
Dottie Thorsen
Internal Auditor

bh
Enclosure
c Magdalene Fasthorse

ND Retirement and Investment Office

*Teachers' Fund for Retirement
State Investment Board*

1930 Burnt Boat Drive
P.O. Box 7100
Bismarck, ND 58507-7100
Telephone 701-328-9885
Toll Free 800-952-2970
Fax 701-328-9897
www.nd.gov/rio



May 8, 2013

Stephen Cascaden
Superintendent
Eight Mile School District
PO Box 239
Trenton ND 58853-0239

RE: TFFR Compliance Audit – Follow-Up Review

Dear Mr. Cascaden:

During fiscal year 2011/12, the North Dakota Retirement and Investment Office audited the Eight Mile School (District) to determine whether salaries, service hours, and members reported to TFFR were in compliance with the North Dakota Century Code. The District was found to be not in compliance in a report dated December 5, 2011. As a result, TFFR Board policy requires a follow-up review after the audit period to ensure that reporting procedures have been corrected.

Audit Division staff reviewed payroll records and contracts requested from the District for three members reported to TFFR in fiscal year 2011/12. At the time of the audit review, the retirement salaries reported to TFFR for the audit sample were in compliance. Based on our follow-up review, it appears the findings from the December 2011 compliance audit report have been corrected. Please continue to follow proper TFFR reporting procedures.

On behalf of the TFFR Board, I would like to thank you and Doug Hoffman for your cooperation during the TFFR audit follow-up review. If you have any questions, please contact us at the Retirement and Investment Office.

Sincerely,

A handwritten signature in cursive script that reads "Fay Kopp".

Fay Kopp
Interim Executive Director-
Chief Retirement Officer

A handwritten signature in cursive script that reads "Les D. Mason".

Les Mason
Supervisor of Internal Audit

Enclosure
bh
c Douglas Hoffman



ND Retirement and Investment Office

*Teachers' Fund for Retirement
State Investment Board*

1930 Burnt Boat Drive
P.O. Box 7100
Bismarck, ND 58507-7100
Telephone 701-328-9885
Toll Free 800-952-2970
Fax 701-328-9897
www.nd.gov/rio

May 1, 2013

Dr. Steve Swiontek
Superintendent
Velva School District
PO Box 179
Velva ND 58790-7045

RE: TFFR Compliance Audit - Follow-Up Review

Dear Dr. Swiontek:

During fiscal year 2010/11, the North Dakota Retirement and Investment Office audited the Velva School District to determine whether salaries, service hours, and members reported to TFFR were in compliance with the North Dakota Century Code. The District was found not in compliance in a report dated May 17, 2011. As a result, TFFR Board policy requires a follow-up review after the audit period to ensure that reporting procedures have been corrected.

Audit Division staff reviewed payroll records and contracts requested from the District for three members reported to TFFR in fiscal year 2011/12. At the time of the audit review, the retirement salaries reported to TFFR for the audit sample were in compliance. Based on our audit follow-up review, it appears the findings from the May 2011 compliance audit report have been corrected. Please continue to follow proper TFFR reporting procedures.

On behalf of the TFFR Board, I would like to thank you and Teri Kvamme for your cooperation during the TFFR audit follow-up review. If you have any questions, please contact us at the Retirement and Investment Office.

Sincerely,

Handwritten signature of Fay Kopp in cursive.

Fay Kopp
Interim Executive Director-
Chief Retirement Officer

Handwritten signature of Dottie Thorsen in cursive.

Dottie Thorsen
Internal Auditor

bh
Enclosure
c Teri Kvamme

MEMORANDUM

TO: Fay Kopp, Interim Director/Retirement Officer
Shelly Schumacher, Retirement Program Manager

FROM: Dottie Thorsen, Auditor

DATE: September 17, 2013

SUBJECT: Benefit Payments Audit

I reviewed the policy and procedures for the deaths, long outstanding checks, purchases and refunds. The external auditors, Clifton/Larson/Allen, did not request any assistance from the Internal Audit Division for the RIO 2012/13 external audit. Therefore, I did not review any annuitant's accounts: recalculate their benefit, send confirmation letters, review their disbursement information, or review the payment history for the audit year. Due to time constraints with the Supervisor of Audit Services retirement, I did not review any information on long-term annuitants.

Conclusion: The staff members were following policies and procedures established by the Retirement and Investment Office. No exceptions were noted.

Deaths – The Retirement Program Specialist is following the policy and procedures established by RIO when an annuitant dies.

- Reconciled the CPAS monthly, Retirement Services, and CPAS annual 2012/13 death list
- Reviewed procedures for obtaining death certificates – no changes
- Reviewed deaths listed on report dated 7/3/2013 – death certificate on file, no overpayment of benefits, verified reimbursement of overpaid benefits, and reviewed survivor set-up, continuing annuitant set-up or refund. Six accounts were open as of 9/13/2013. One of the six accounts will begin payment status on 10/1/2013.
- Verified that the unprocessed death listed on report dated 7/17/2012 was closed.
- Reviewed monthly Vital Statistic's reports
- Reviewed the two reports from Small World Solutions

Long-outstanding Checks – Retirement Services and Fiscal Management staff are following the policy established by the Retirement and Investment Office on outstanding checks.

- Reviewed policies and procedures – no updates made by the Retirement Program Manager and Investment Accountant for fiscal year 2012/13
- Reviewed list of outstanding checks as of 7/1/2013 received from Investment Accountant
- Looked at CPAS and Image accounts for members with outstanding checks. Verified that the appropriate documents were on file and that the checks have cleared the bank.

Purchases – I randomly selected two lump sum purchases from the fourth quarter table report of the Retirement Program Specialist that processes the purchases for the members. I did not select a member from the monthly Installment Purchase report because these are reviewed on a quarterly basis.

- Reviewed the response letter sent to the members with the information on purchases
- Reviewed processed purchase on CPAS
- Reviewed payment information
- Verified the service was posted to their account

Refunds – I randomly selected a refund from the May and June 2013 monthly refund reports. I receive copies of these reports from IT for the quarterly audit. One member requested the information for the refund. The second member (not-vested) responded to a letter from RIO on the refund process.

- Reviewed the correspondence
- Reviewed the processed refund on CPAS
- Verified that the check sent was the same as the processed refund amount
- Verified that the check had cleared the bank

MEMORANDUM

FROM: Dottie C. Thorsen, Internal Auditor

TO: Fay Kopp, Interim Executive Director
Shelly Schumacher, Retirement Program Manager

DATE: August 6, 2013

SUBJECT: TFFR File Maintenance Audit
Fourth Quarter (2012/13)
(April, May, and June)

Conclusion: One exception - Member Action Form was not scanned to image

These are the audit procedures for the quarterly audit. The Audit Supervisor decreased the audit hours from 16 to 12 in the 2013/14 audit plan. I had to reduce the information reviewed.

- 1) I ran and reviewed the table reports for all sixteen RIO staff members. Seven staff members appropriately did not have transactions on the table report. I reviewed the transactions found on the other nine staff member's table reports.
- 2) I reviewed all the transactions on the Data Processing Coordinator's table report. All entries were appropriate and had documentation.
- 3) During my review of the table reports reviewed, I did not see any unusual transactions that needed additional testing. Due to lack of time, I could not look at the entire table report for one Retirement Program Specialist.
- 4) I compared the information on seven member action forms with the information posted on CPAS.
- 5) Due to the lack of time, I did not review any accounts that were refunded.
- 6) Due to the lack of time, I did not review documents for purchased service time.

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE INTERNAL AUDIT
 COMPARISON OF BUDGET TO ACTUAL SCHOOL DISTRICT AUDITS
 FOR FISCAL YEAR ENDING JUNE 30, 2013**

	<u>2012-2013 audits</u>		OVER/ (UNDER)
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>BUDGET</u>
1st quarter (July - September)	6	5	(1)
2nd quarter (October - December)	13	3	(10)
3rd quarter (January - March)	12	16	4
4th quarter (April - June)	12	21	9
	<u>43</u>	<u>45</u>	<u>2</u>

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE INTERNAL AUDIT
 COMPARISON OF BUDGET HOURS TO ACTUAL HOURS
 FOR THE FISCAL YEAR ENDING JUNE 30, 2013**

	1st quart. hours 7/1/2012 - 9/30/2012	2nd quart. hours to date 10/1/2012 - 12/31/2012	3rd quart hours 1/1/13 - 3/31/13	4th quart. hours 4/1/2013 6/28/2013	2012-13 Actual Hrs 7/1/2012 - 6/30/2013		2012-13 BUDGET HOURS		Over (Under) Budget
1. Audit									
School District Audits	653	737	678	749	2,817		2,792		25
Follow-up on "not-in-compliance" prior year audits (30 hrs/audit, 2 audits)		30	10	64	104		60		44 (Completed 4 reviews)
TFFR File Maintenance (12 hours per quarter)	21	16	16	13	66		64		2
Benefit Payments, Deaths, purchase of service, and refunds review	52				52		92		(40) (Combined two audits)
Executive Limitations			21		21		24		(3)
Policy & Procedure Manual				4	4		16		(12)
Total Audit Hours	726	783	725	830	3,064	74%	3,048	73%	16
2. Administrative (meetings & prep, CEU's, etc.)	106	87	136	135	464	11%	292	7%	172
3. Annual/Sick Leave, Holidays	208	170	179	75	632	15%	820	20%	(188)
Total Budget Hours (2 FTE's)	1,040	1,040	1,040	1,040	4,160	100%	4,160	100%	

DRAFT

MEMORANDUM

TO: STATE INVESTMENT BOARD

FROM: REBECCA DORWART, SIB AUDIT COMMITTEE CHAIRPERSON

DATE: SEPTEMBER 27, 2013

SUBJECT: AUDIT COMMITTEE ACTIVITIES UPDATE FOR THE FISCAL YEAR
JULY 1, 2012 TO JUNE 30, 2013

The Audit Committee is a standing committee of the State Investment Board (SIB) authorized under SIB Governance Policy B-6, Standing Committees. Its primary function is to assist the SIB in fulfilling its oversight responsibilities of the Retirement and Investment Office (RIO) internal and external audit programs, including the financial reporting process, internal controls, and compliance with laws, regulations, policies and procedures.

Members of the Audit Committee for the 2012-13 fiscal year were: Rebecca Dorwart, Chair; Lonny Mertz, Vice Chair; Cindy Ternes, designee from Workforce Safety representing elected and appointed officials; Michael Gessner, representing the Teachers' Fund for Retirement (TFFR) Board; and Mike Sandal, representing the Public Employees Retirement System (PERS) Board. The Audit Committee held four regular meetings during the fiscal year.

Activities of the Audit Committee during the past year included:

- ◆ The Committee established the 2012-13 audit work plan and monitored progress on a quarterly basis. Audit activities included:
 - TFFR school district compliance audits – completed 45 regular audits and 4 follow up reviews of not-in-compliance audits.
 - TFFR benefit payments audit – completed annual review of deaths, purchases, refunds, and outstanding payments.
 - TFFR file maintenance audit – completed 4 quarterly reviews of changes made to member account data.
 - SIB Executive limitations audit – completed annual review of governance policy relating to Executive Director/CIO.

The Committee worked closely with the Audit Supervisor and Interim Executive Director on improving the process, timeliness, and monitoring of school district compliance audits.

- ◆ The Committee held private meetings with the Audit Supervisor and the Interim Executive Director-Chief Retirement Officer.
- ◆ The Committee received the results of the RIO financial audit for the fiscal year ended June 30, 2012 from independent auditors, CliftonLarsonAllen, LLP. The firm issued an unqualified opinion on RIO's financial statements.
- ◆ The Committee reviewed the RIO financial audit plan for the fiscal year ended June 30, 2013 with CliftonLarsonAllen. Discussion included the scope of the audit to ensure complete coverage of financial information.
- ◆ The Committee approved the audit work plan for the fiscal year ending June 30, 2014. The plan includes:
 - TFFR school district compliance audits and follow-up reviews of not-in-compliance audits
 - TFFR benefit payments audit
 - TFFR file maintenance audit
 - SIB Executive limitations audit
 - Special projects, including creation of an audit procedures manual

Please note that Les Mason, RIO Audit Supervisor, retired in July 2013 which will impact the 2013-14 work plan. The Audit Committee is reviewing the audit supervisor position and audit function before filling the vacancy.

The above activities support the Committee's fulfillment of its oversight responsibilities. Please inform the Committee if there are special audits or activities the Board would like to have reviewed.

MEMORANDUM

TO: SIB Audit Committee

FROM: Fay Kopp, Interim Executive Director – Chief Retirement Officer

DATE: September 20, 2013

SUBJ: 2013-14 Audit Progress Report

Attached is the 2013-14 Audit Work Plan and the School District Audit Progress and Status Report as of 9/20/13 which Dottie Thorsen will review at the meeting.

Please note that when the Committee approved the 2013-14 work plan in May 2013, it was expected that both audit positions would be filled. In accordance with the work plan, the 65 total audits were divided between the audit supervisor and the staff auditor. At the time, Les was assigned 28 school district compliance audits, 3 follow-up reviews of not-in-compliance audits, and the SIB Executive Limitations Audit (32 audits). Dottie was assigned 24 school district audits, 4 follow-up reviews of not-in-compliance audits, 4 file maintenance reviews, and the annual benefit payments review (33 audits). Other administrative and audit related duties were also divided between the positions.

With the retirement of Les Mason on July 12, 2013, we anticipate the 2013-14 annual work plan goals will not be met. Please consider whether the current audit work plan should be amended. If not formally amended, it will be important to recognize the impact the audit supervisor vacancy will have on the plan. Additional staff time will be required during the year to handle the various administrative duties, audit committee preparations, reports and communications, filling the position, and training. Consequently, there will be less time available to spend on regular audit coverage, specifically school district compliance audits and follow-up reviews.

I have met with Dottie and the Retirement Program Manager to analyze the reporting status of the 7 follow-up reviews for not-in-compliance audits that are scheduled for the 2013-14 year. Because three of the school districts have new business managers, I believe the follow-up reviews would be better timed for next fiscal year, after the new business manager reports salary and contributions for one year. Conducting the reviews this year would likely require much more time spent by both RIO staff and the school district. I believe we could get a better review in less time by waiting until next year.

Dottie and I are committed to meeting the expectations of the Audit Committee in the upcoming year. However, due to the audit supervisor vacancy, we will need to re-prioritize in order to ensure the best audit coverage in the time available. We appreciate your guidance and support.

Enclosures

**RETIREMENT AND INVESTMENT OFFICE (RIO)
INTERNAL AUDIT SERVICES UNIT WORK PLAN
FOR THE JULY 1, 2013 - JUNE 30, 2014 FISCAL YEAR**

RETIREMENT PROGRAM:

- Test school district reporting to the Teachers' Fund for Retirement (TFFR) for members of the Fund.

Audit Frequency: On-going. Fifty two audits completed for fiscal year 2013-2014.
Report: Filed with Interim Executive Director/Chief Retirement Officer, and school district upon completion. Filed with the SIB Audit Committee quarterly.

- Follow-up review of not-in compliance school district audits from prior years.

Audit Frequency: On-going. Seven reviews completed for fiscal year 2013-2014.
Report: Filed with Interim Executive Director/Chief Retirement Officer and school district upon completion. Filed with the SIB Audit Committee quarterly.

- Perform file maintenance audit to review changes made to TFFR member account data by RIO employees.

Audit Frequency: Quarterly
Report: Filed with Interim Executive Director/Chief Retirement Officer upon completion Filed with the SIB Audit Committee quarterly. Results made available for external auditors' review.

- Perform review of deaths, purchase of service, and refunds.

Audit Frequency: Annually
Report: Filed with Interim Executive Director/Chief Retirement Officer and SIB Audit Committee upon completion. Results made available for external auditors' review.

RIO ADMINISTRATION:

- Determine whether executive performance is in compliance with State Investment Board (SIB) *Executive Limitations* governance policy.

Audit Frequency: Annually.
Report: Filed with Interim Executive Director/Chief Retirement Officer, Interim Chief Investment Officer, and SIB Audit Committee 30 days following calendar year end.

SPECIAL PROJECTS:

- Other unidentified special projects or audits at the request of the Interim Executive Director/Chief Retirement Officer or the SIB Audit Committee.
- Current special project assigned by the Interim Executive Director/Chief Retirement Officer is the creation of an audit policy and procedure manual.

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
WISHEK SCHOOL DISTRICT
SEPTEMBER 23, 2013**

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with the Interim Director-Retirement Officer of RIO upon completion, and the Audit Committee of the State Investment Board (SIB) quarterly.

SCOPE

This audit is designed to test the accuracy of retirement salaries reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the District for the 2010/11 through 2011/12 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited. See Primary Test.

The Primary Test did not disclose any reporting procedure used by the District that would affect a large portion of the population for fiscal years 2010/11 through 2011/12. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDINGS

In our opinion, for the time period covered in the audit, the retirement salaries reported by the Wishek School District for the fiscal years 2010/11 through 2011/12 were in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted:

1. The District did not report eligible coaching and in-staff subbing salary for two members.
2. The District reported ineligible activity bus driving salary for one member.
3. The District reported contract salary incorrectly due to an error in reporting the Model 3 assessment in lieu of a salary increase amount for one member.
4. The District reported service hours incorrectly for one member in 2012/13.

RECOMMENDATION AND CORRECTIVE ACTION

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in determining when salary is reportable (Reporting Section). The website address is www.nd.gov/rio/TFFR/Publications.

Finding 1:

The District did not report to TFFR eligible coaching and in-staff subbing salary for two members. No correction will be made to the member's account for the in-staff subbing because the amount owed was immaterial. The other member's account will be corrected. RIO will make the adjustments to his account and bill the District for the amount of member/employer contributions owed. It is the responsibility of the District to collect the member contributions owed (See Primary Test and Worksheet for changes in Salaries and Contributions).

Finding 2:

The District reported ineligible activity bus driving salary to TFFR for one member. No adjustment will be made to the account because the amount overpaid was immaterial (See Primary Test).

Finding 3:

The District reported the incorrect contract salary to TFFR for one member due to an isolated programming error that did not correctly calculate the model assessment in lieu of a salary increase amount. RIO will adjust the member's account and notify him that changes have been made (See Primary Test and Worksheet for changes in Salaries and Contributions).

Finding 4:

The District reported service hours incorrectly to TFFR for one part-time member. RIO will correct the member's account and notify her that an adjustment has been made (See Schedule 5 for the member).

The amount of member/employer contributions and interest due for Findings 1 and 3 is \$4,912.64 (Schedule 2). The billing invoice for the amount due will be sent to the Business Manager. Please provide a written response on the District's intent to correct the above findings in future reporting to TFFR. **The written response and contributions owed are due October 24, 2013.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.



Dottie C. Thorsen
Internal Auditor

bh
Enclosures

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
TGU SCHOOL DISTRICT
AUGUST 22, 2013**

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with the Interim Director-Retirement Officer of RIO upon completion, and the Audit Committee of the State Investment Board (SIB) quarterly.

SCOPE

This audit is designed to test the accuracy of retirement salaries reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the District for the 2010/11 through 2011/12 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited. See Primary Test.

The Primary Test did not disclose any reporting procedure used by the District that would affect a large portion of the population for fiscal years 2010/11 through 2011/12. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDING

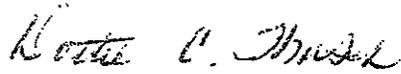
In our opinion, for the time period covered in the audit, the retirement salaries reported by the TGU School District for the fiscal years 2010/11 through 2011/12 were in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). There were no exceptions noted.

RECOMMENDATION

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is www.nd.gov/rio/TFFR/Publications.

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.



Dottie C. Thorsen
Internal Auditor

bh
Enclosures

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
SURREY SCHOOL DISTRICT
AUGUST 5, 2013**

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with the Interim Executive Director-Retirement Officer of RIO upon completion, and the Audit Committee of the State Investment Board (SIB) quarterly.

SCOPE

This audit is designed to test the accuracy of retirement salaries reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the District for the 2010/11 through 2011/12 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. See Primary Test.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited. See Primary Test.

The Primary Test did not disclose any reporting procedure used by the District that would affect a large portion of the population for fiscal years 2010/11 through 2011/12. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDINGS

In our opinion, for the time period covered in the audit, the retirement salaries reported by the Surrey School District for the fiscal years 2010/11 through 2011/12 were in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted.

1. The District did not issue written agreements for summer salary.
2. The District reported service hours incorrectly for one part-time member.
3. The District did not report eligible student supervision salary at athletic events.

RECOMMENDATIONS AND CORRECTIVE ACTION

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is www.nd.gov/rio/TFFR/Publications.

Finding 1:

The District stated that they do not issue contracts or written agreements for summer salary. TFFR recommends that the District provide written agreements for district and out-of-district teachers. A written agreement can be a contract, school board minutes or other official document evidencing a contractual relationship between a teacher and participating employer. In the future, if written agreements are not issued to teachers from outside the District or teachers without a continuing contract, the summer salary would not be reportable to TFFR.

Finding 2:

The District reported service hours incorrectly to TFFR for one part-time member. Since the member has closed her account with TFFR, no correction will be made (See Schedule 5 for the member).

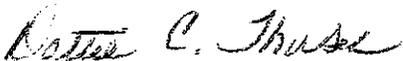
Finding 3:

The District did not report eligible student supervision salary during athletic events. This error caused a shortage of member/employer contributions and interest due of \$482.03 (See Schedule 2). RIO will correct the member's accounts and notify them that an adjustment has been made (See Primary Test and Worksheet for Correcting Accounts).

Please provide a written response on the District's intent to correct the above errors, including issuing written agreements for summer duties, in future reporting to TFFR. **The contributions due and written response needs to be returned to the Retirement and Investment Office by September 6, 2013.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.



Dottie C. Thorsen
Internal Auditor

bh
Enclosures

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
JAMESTOWN SCHOOL DISTRICT
JULY 19, 2013**

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with the Interim Director-Chief Retirement Officer of RIO upon completion, and the Audit Committee of the State Investment Board (SIB) quarterly.

SCOPE

This audit is designed to test the accuracy of retirement salaries reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the District for the 2010/11 through 2011/12 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined (see Primary Test).

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited (see Primary Test).

The Primary Test did not disclose any reporting procedure used by the District that would affect a large portion of the population for fiscal years 2010/11 through 2011/12. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDING

In our opinion, for the time period covered in the audit, the retirement salaries reported by the Jamestown School District for the fiscal years 2010/11 through 2011/12 were in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following error was noted.

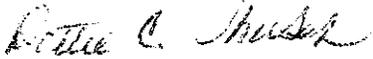
The District reported service hours incorrectly for one member.

RECOMMENDATION AND CORRECTIVE ACTION

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is www.nd.gov/rio//TFFR/Publications. RIO will adjust the member's account and notify her about the correction (See Schedule 5 for the member).

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.



Dottie C. Thorsen
Internal Auditor

bh
Enclosures

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
SHEYENNE VALLEY SPECIAL EDUCATION DISTRICT
JULY 18, 2013**

PURPOSE

The Teachers' Fund for Retirement (TFFR) Board of Trustees, through the Retirement and Investment Office (RIO), is responsible for ensuring that required reports and payments for TFFR members are made by public school districts and other member employers. This responsibility is contained in Chapter 15-39.1, NDCC, and most specifically, section 15-39.1-23, NDCC.

An Audit Program (AP) has been established within RIO to carry out this responsibility. This AP is in conjunction with and in addition to the audit performed by RIO's external auditors. Independent reports are filed with the Interim Director-Retirement Officer of RIO upon completion, and the Audit Committee of the State Investment Board (SIB) quarterly.

SCOPE

This audit is designed to test the accuracy of retirement salaries reported by the employer to determine compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). The employer's master contracts, employer payment plan, salary schedules, extra-curricular payment schedules, along with the individual teacher contracts, are used in the examination.

A representative sample of TFFR accounts was selected from members of the District for the 2010/11 through 2011/12 school years. For each school year under audit, member accounts were selected from the final Employer's Report of Member and Employer Contributions. Member contributions, employer contributions, and salaries reported for the selected members were examined. See Primary Test.

The Primary Test calculates the member and employer contributions due to TFFR based on the information provided by the employer. The results are then compared to the amounts actually reported by the employer for the years being audited. See Primary Test.

The Primary Test did not disclose any reporting procedure used by the District that would affect a large portion of the population for fiscal years 2010/11 through 2011/12. Therefore, the Primary Test was not expanded to include 100 percent of the members.

However, it is the policy of the TFFR Board that the time limitation applied to reporting errors shall be from the onset of the error or 36 months prior to the beginning of the current school year.

FINDINGS

In our opinion, for the time period covered in the audit, the retirement salaries reported by the Sheyenne Valley Special Education District for fiscal years 2010/11 through 2011/12 were in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted.

1. The District did not issue written agreements for summer salary.
2. The District did not report eligible summer salary (isolated occurrence).

RECOMMENDATIONS AND CORRECTIVE ACTION

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is www.nd.gov/rio/TFFR/Publications.

Finding 1:

The District reported summer salary to TFFR without a written agreement. The District stated that they do not issue contracts or written agreements for summer salary. A written agreement can be a contract, school board minutes or other official document evidencing a contractual relationship between a teacher and participating employer. This is the same finding from the 2008 audit (see attached correspondence dated 6/24/2008). As a best practice, TFFR recommends that the District should issue some form of written agreement to the district as well as out-of-district teachers for all summer salary. If written agreements are not issued to teachers from outside the District or teachers without a continuing contract, the summer salary would not be reportable to TFFR.

Find 2:

The District did not report eligible summer salary to TFFR. RIO will adjust the member's account and notify her about the correction (see Primary Test and Worksheet for Corrections). There was a shortage in contributions reported to TFFR. It is the responsibility of the District to collect contributions due from the member.

A bill for the amount of contributions due of \$173.40 (See Schedule 2) will be sent to the Business Manager. Please provide a written response on the District's intent to correct the above errors, including issuing written agreements for summer duties, in future reporting to TFFR. **The written response needs to be returned to the Retirement and Investment Office by August 20, 2013.**

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

In addition to the compliance audit, all accounts are reviewed as members notify the TFFR of their intent to retire.



Dottie C. Thorsen
Internal Auditor

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Enclosures

MEMORANDUM

TO: SIB Audit Committee

FROM: Fay Kopp, Interim Executive Director – Chief Retirement Officer

DATE: September 20, 2013

SUBJ: Audit Supervisor Position

As you know, Les Mason, Audit Supervisor, retired effective July 12, 2013. Under the current Audit Committee Charter (Responsibilities – Internal Audit, #5):

The Audit Committee will participate with RIO's Executive Director in the appointment of the Audit Supervisor, and evaluation of the performance of the Audit Supervisor. The Committee will also approve any changes in staffing, including the addition, termination, or replacement of auditors, and the approval of salary increases and/or promotions other than those authorized by the Legislature.

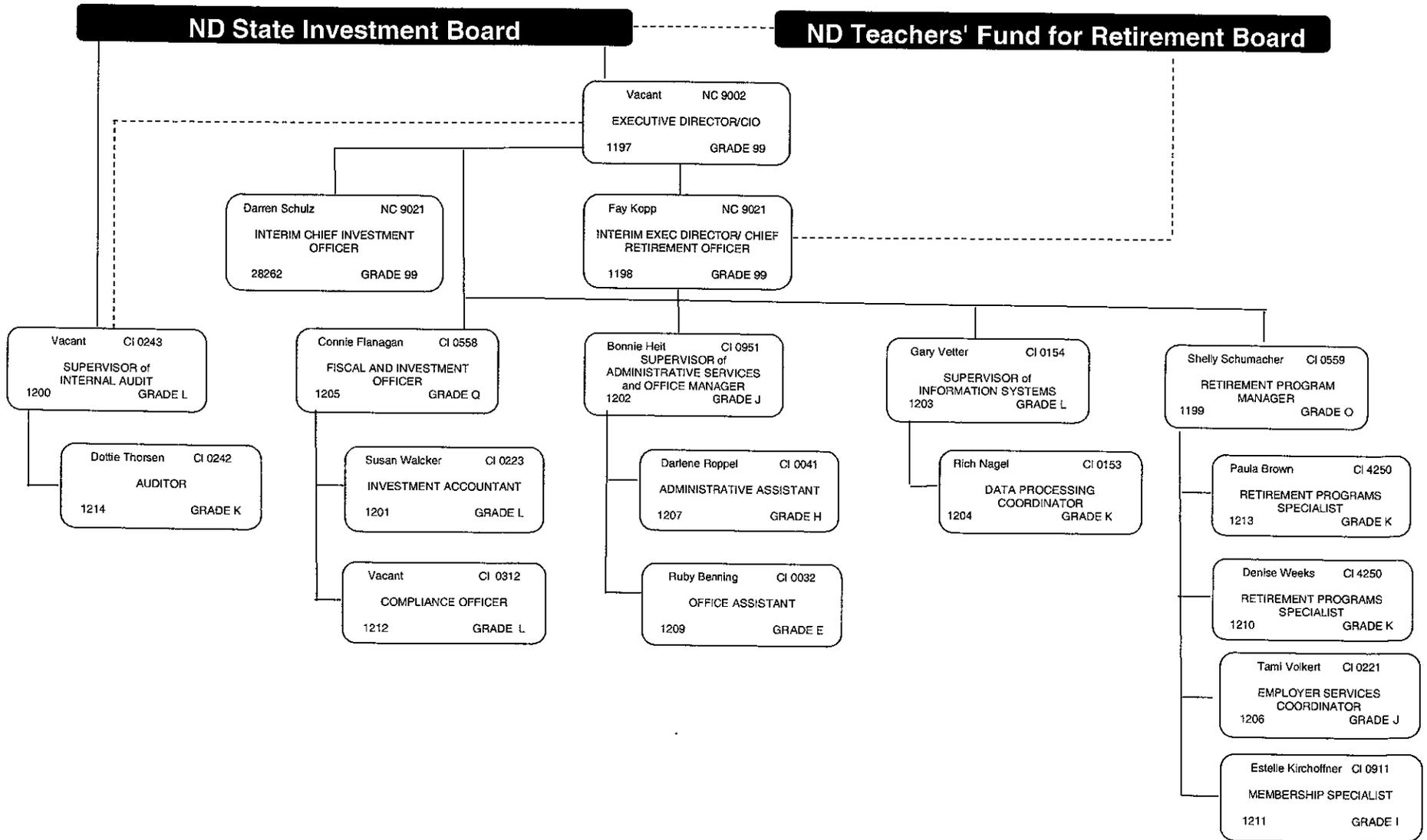
Attached is a copy of the current Audit Supervisor (Auditor III) job description and RIO organizational chart. Some of the job duties reflected on the job description are outdated, and are no longer being done or are done on a limited basis. Current primary job duties include supervising the internal audit program and staff, auditing board compliance with Executive Limitation governance policy, and conducting compliance audits of school district reporting.

Please review this information and plan to discuss the vacant audit supervisor position, and overall audit function within the RIO agency. Also consider the impact of the new Executive Director-CIO when that position is filled.

Enclosures

ND Retirement and Investment Office (RIO)

July 12, 2013



Note: NDRIO has total of 18 FTE positions.
 Staff is allocated between SIB & TFFR programs
 based on approximate time spent on each program.

**AUDITOR III
CLASS 0243, GRADE L**

WORK TITLE: Supervisor of Internal Audit

Job Duties

1. Supervise internal audit program.
 - a. Plan, direct, and organize audits.
 - b. Develop and update audit programs.
 - c. Determine and apply audit tests.
 - d. Prepare computer generated audit reports and present findings to the Executive Director, Deputy Executive Director, and Audit Committee.
 - e. Analyze and evaluate effectiveness of the audit procedures.
 - f. Supervise and evaluate the work activities of internal audit staff.
 - g. Assist with recruiting, hiring, and training of internal audit staff.
2. Responsible for the internal audit of the investment program.
 - a. Complete appropriate audit tests.
 - b. Identify problems.
 - c. Prepare computer-generated report on findings with recommendations and file with Executive Director, Deputy Executive Director, and Audit Committee.
3. Responsible for auditing board compliance with governance policies
 - a. Complete appropriate audit tests.
 - b. Identify problems.
 - c. Prepare computer-generated report on findings with recommendations and file with Executive Director, Deputy Executive Director, and Audit Committee.
4. Assist in the coordination of external audit activities.
5. Conduct audits of school district reporting.

MEMORANDUM

TO: SIB Audit Committee

FROM: Fay Kopp, Interim Executive Director – Chief Retirement Officer

DATE: September 20, 2013

SUBJ: Audit Committee Charter

SIB Governance Policy B-6, Standing Committees (attached), establishes the Audit Committee as a standing committee of the SIB. The policy requires the Audit Committee to operate under the terms of a charter approved by the SIB.

Attached is the **CURRENT** Audit Charter which was originally adopted in 1994, and has been periodically modified. In a recent review of the current Audit Charter, the Committee determined that some of the audit activities and responsibilities have changed over time, and should be updated. Consequently, Audit Committee Vice Chair Lonny Mertz took the lead on this project, with input from the Audit Supervisor and Interim Executive Director. The group reviewed the IIA model audit charter, as well as audit charters from PERS and MDU. Attached is a **DRAFT REVISED** Audit Charter which we believe more accurately reflects the current responsibilities of the audit committee and audit services staff.

Please review the **CURRENT** and **DRAFT REVISED** Audit Charter for discussion at the September meeting. At the meeting, the Committee will also be discussing the vacant audit supervisor position and audit function within the agency which could have some bearing on how to move forward with the Audit Charter.

Once the Audit Committee has the opportunity for input on the charter, it will be sent to RIO legal counsel for review. It can then be forwarded to the SIB for final approval. The SIB Governance Policy B-6 may also need to be updated so the policy and charter are consistent.

Enclosures

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *STANDING COMMITTEES*

The board's standing committee is that which is set forth in this policy as follows:

1. Audit Committee

- A. The audit committee shall operate under the terms of a charter approved by the board.

INTRODUCTION

An Audit Committee has been established as a standing committee of the State Investment Board (SIB). The Audit Committee will assist the SIB in carrying out its oversight responsibilities as they relate to the Retirement and Investment Office (RIO) internal and external audit programs, including financial and other reporting practices, internal controls, and compliance with laws, regulations, and ethics.

The primary objective of the internal audit function is to assist the SIB and management in the effective discharge of their responsibilities. To this end, internal auditing will furnish them with analyses, appraisals, recommendations, and pertinent information concerning the activities reviewed.

Functions and units within RIO will be reviewed at appropriate intervals to determine whether they are effectively carrying out their responsibilities of planning, organizing, directing, and controlling in accordance with SIB and management instructions, applicable laws, policies, and procedures, and in a manner consistent with both the RIO objectives and high standards of administrative practice.

POLICY OF THE STATE INVESTMENT BOARD

The audit staff shall have full, free, and unrestricted access to all RIO activities, records, property, and personnel relative to the subject under review. The audit function will be conducted in a manner consistent with acceptable professional standards and coordinated with others to best achieve the audit objectives and the RIO objectives.

The Internal Audit Services Unit is responsible for developing and directing a broad, comprehensive program of internal auditing within RIO. The Internal Audit Services Unit will report administratively to management and functionally to the Audit Committee of the SIB.

The RIO unit supervisors are responsible for seeing that corrective action on reported weaknesses is either planned or taken within 30 days from the receipt of a report disclosing those weaknesses if known or applicable. The unit supervisors are also responsible for seeing that a written report of action planned or completed is sent to the executive director. If a plan for action is reported, a second report shall be made promptly upon completion of the plan.

Policy Implemented: June 23, 1995.

**STATE INVESTMENT BOARD
AUDIT COMMITTEE CHARTER**

PURPOSE

The Audit Committee (the Committee) is a standing committee of the North Dakota State Investment Board (SIB). The Committee will perform as an effective oversight function of the Retirement and Investment Office (RIO) internal and external audit programs; including the financial reporting process, internal controls, policies, and practices.

AUTHORITY

The Committee is authorized to develop and direct the internal audit program for RIO as well as oversee the external audit. The internal audit program provides assurance to the Committee that RIO's financial condition and results of operations are accomplished in accordance with RIO's policies and plans. The Committee may investigate any activity of RIO and may retain persons as necessary from within or outside RIO having special competence to assist the Committee in the accomplishment of its responsibilities.

RESPONSIBILITIES

RIO executive management is responsible for financial and other reporting, internal control, and compliance with laws, regulations, and ethics. The Committee has the responsibility to assure the reliability and integrity of financial and operating information; compliance with policies, plans, procedures, pertinent laws and regulations, and ethical conduct; safeguarding of assets; economical and efficient use of resources; and effectiveness of achieving desired results from operations. To this end, the Committee will:

Internal Audit

1. Approve and periodically review the internal audit charter and submit to the SIB for approval.
2. Review and approve the annual work plan detailing the planned scope of internal audits of RIO activities and functions, and review the results of the internal audit program.
3. Discuss with the internal auditors' significant internal audit recommendations and review and analyze RIO's internal accounting control systems and related policies and control systems.
4. Review the coordination of the internal audit work with the external auditor's work.
5. Participate with RIO's Executive Director in the appointment of the internal audit supervisor, and evaluation of the performance of the internal audit supervisor. Approve any changes in staffing; including the addition, termination, or replacement of internal auditors, and the approval of salary increases and/or promotions other than those authorized by the legislature.
6. Meet with the internal auditor(s) periodically (out of the presence of management and the external auditors as appropriate) with respect to any of the foregoing and review any restrictions on the audit work.

7. Review with the audit supervisor whether internal audit activities are being carried out in accordance with the Institute of Internal Auditors, Inc. "International Standards for the Professional Practice of Internal Auditing," as adopted by the Committee.

External Audit

1. Make recommendations to the State Auditor when appropriate as it relates to selection, evaluation, and termination.
2. Review non-auditing services, if any, performed for RIO by the external auditors.
3. Review annually the overall plan of the audit as proposed by the external auditors and management, including the scope of the examination to be performed, the assistance to be provided by the internal auditors and any developments in accounting principles and auditing standards that may affect either the financial statements or the audit.
4. Prior to the release of the annual report to the SIB and other officials, review the results of the audit with the external auditors and management, which review will include the following, as applicable:
 - (a) Any major problems encountered by the external auditors and the resolution thereof;
 - (b) The effect on the audit of any developments referred to in item 3 above;
 - (c) Any unresolved differences between the external auditors and management;
 - (d) Any other significant comments or recommendations of the external auditors or management;
 - (e) And the adequacy of RIO's internal accounting controls and accounting policies, procedures, and practices.
5. Meet with the external auditors periodically (out of the presence of management as appropriate) with respect to any of the foregoing, and review any restrictions on the audit work.
6. Engage in dialogue with the external auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the auditors.

RIO Management

1. Provide oversight of RIO's financial reporting process. Inquire as to any proposed changes in accounting or financial reporting procedures and of any unusual events that could impact the financial statements.
2. Inquire as to the procedure for the prevention of illegal payments, conflicts of interest, or other questionable practices. Inquire as to the existence of any illegal payments, conflicts of interest, or other questionable acts. Review the Code of Conduct, rules, and policies applicable to RIO.
3. Review compliance with federal and state law, North Dakota administrative code, and SIB and Teachers' Fund for Retirement (TFFR) Board policies.

ADMINISTRATIVE

The Committee will consist of five members, selected by the SIB. Three members of the Committee will represent the three groups on the SIB (TFFR Board, Public Employees Retirement System (PERS) Board, and elected and appointed officials). The other two members will be selected from outside of the SIB.

The Committee will elect a Chair, a Vice Chair, and a liaison. The Chair will preside at all meetings of the SIB Audit Committee. In the absence of the Chair, the Vice Chair will perform the duties of the Chair. The liaison will report annually to the SIB on the results of the annual audit and quarterly to the SIB on the activities of the Committee and other pertinent information.

RIO's Executive Director will supervise the administrative activities of the internal and external audit programs such as travel, securing contracts, paying fees, maintaining official reports, and other appropriate activities.

The Supervisor of Internal Audit Services will be the staff member to report directly to the Committee.

Membership on the Committee will be for one year or termination of term on the SIB. Vacancies will be filled by the SIB at the first scheduled meeting following the vacancy. There will be no limit to the number of terms served on the Committee.

The Committee will meet quarterly, or more frequently as appropriate, and will give notice of Committee meetings to RIO's Executive Director and the Internal Audit Supervisor. The Executive Director and Internal Audit Supervisor will attend all Committee meetings except that the Committee may, at its discretion, elect to meet without the presence of the Executive Director and/or Internal Audit Supervisor.

Approved minutes of the Committee will be submitted to the SIB.

DATE OF CREATION OF COMMITTEE AMENDMENTS: December 14, 1993

DATE AUDIT COMMITTEE CHARTER ADOPTED AND APPROVED: June 24, 1994

REVISED: November 22, 1996, February 13, 1997, November 6, 2001, May 18, 2007, June 26, 2009.

**CHARTER OF THE
AUDIT COMMITTEE OF THE
NORTH DAKOTA STATE INVESTMENT BOARD**

PURPOSE

The Audit Committee (the Committee) is a standing committee of the North Dakota State Investment Board (SIB) created to fulfill its fiduciary oversight responsibilities of the North Dakota Retirement and Investment Office (RIO) and to serve as a communications link among the SIB; the RIO's management and Audit Services staff; independent auditors; and others.

The Committee will assist with the integrity of the RIO's financial reporting process and system of internal controls; the RIO's compliance with legal and regulatory requirements; the performance of the RIO's Audit Services function and independent auditors; and the RIO's management of risks in the Committee's areas of responsibility.

AUTHORITY

The Committee is authorized to oversee the Audit Services function and the independent audit for the RIO. These activities provide assurance that RIO's financial condition and results of operations are accomplished in accordance with the RIO's policies and procedures; and legal and regulatory requirements. The Committee may investigate any activity of the RIO and may retain persons as necessary from within or outside the RIO having special competence to assist the Committee in the accomplishment of its responsibilities.

The RIO's Supervisor of Audit Services will be the staff member to report directly to the Committee.

The RIO's management will supervise the administrative activities of the Audit Services function and independent audit activities such as securing contracts, paying fees, maintaining official reports, and other appropriate activities.

COMPOSITION

The Committee will consist of five members, selected by and approved by the SIB. Three members of the Committee will represent the three groups on the SIB: (Teachers' Fund for Retirement (TFFR) Board, Public Employees Retirement System (PERS) Board, and elected and appointed officials, and two members selected from outside of the SIB and the RIO. The SIB should select committee members who are both independent and financially literate.

Membership on the Committee will be for one year or termination of term on the SIB. Vacancies will be filled by the SIB at the first scheduled meeting following the vacancy. There will be no limit to the number of terms served on the Committee.

The Committee will elect a Chair, a Vice Chair, and a liaison. The Chair will preside at all meetings of the Committee. In the absence of the Chair, the Vice Chair will perform the duties of

the Chair. The liaison will report annually to the SIB on the results of the independent audit and at least four times a year to the SIB and TFFR board on the activities of the Committee and other pertinent information.

The Committee may form, and delegate authority to, subcommittees when it deems appropriate.

MEETINGS

The Committee will meet generally four times a year, with authority to convene additional meetings, as circumstances require or to adequately fulfill all the obligations and duties as outlined in this charter.

Meeting agendas will be prepared by the Supervisor of Audit Services and approved by the Committee Chair, unless otherwise directed by the Committee and will be provided to the Committee members along with briefing materials before the scheduled committee meeting.

Committee members are expected to attend each meeting, in person or via tele- or video-conference. The RIO's executive management and Supervisor of Audit Services and others necessary to provide information and to conduct business will attend meetings. The Committee may invite staff of the RIO, auditors or others to attend meetings, as necessary. The Committee may meet separately with the staff of the RIO, auditors and others. The Committee may, at its discretion, elect to meet without the presence of the RIO's executive management and/or Supervisor of Audit Services or others. The Committee may hold executive sessions as allowed under state law.

The Committee will act only on the affirmative vote of a majority of the committee members at a meeting or by unanimous consent. To conduct business, a quorum will be three members of the Committee. Should a quorum not be present before a scheduled meeting or during a meeting, the Chair will announce the absence of a quorum, and invite a motion to adjourn the meeting. Meetings unable to transact business or lack of a quorum are considered meetings. Meeting minutes will be prepared by the RIO, or as otherwise directed by the Committee. Approved meeting minutes of the Committee will be submitted to the SIB.

RESPONSIBILITIES

The RIO's management is responsible for financial and other reporting; internal controls; and compliance with laws, regulations, and ethics. The Committee has the responsibility to review the reliability and integrity of financial and operating information; compliance with policies, plans, procedures, pertinent laws and regulations, and ethical conduct; safeguarding of assets; economical and efficient use of resources; and effectiveness of achieving desired results from operations. To this end, the Committee will:

Independent Audit

- Review the independent auditors' proposed audit scope and approach, including coordination of audit effort with RIO's Audit Services staff and any developments in accounting principles and auditing standards that may affect either the financial statements or the audit.

- Meet with the independent auditors to discuss any matters that the Committee or auditors believe should be discussed privately (out of the presence of RIO's management and/or Audit Services staff, as appropriate) and review any restrictions on the audit work.
- Provide oversight of the RIO's financial reporting process. Inquire as to any proposed changes in accounting or financial reporting procedures and of any unusual events that could impact the financial statements.
- Review the results of the financial statements report with the independent auditors and the RIO's management, prior to the release of the financial statements report to the SIB and other officials. This review will include the following, as applicable:
 - Any major problems encountered by the independent auditors and the resolution thereof;
 - The effect on the audit of any developments;
 - Any unresolved differences between the independent auditors and the RIO's management;
 - Any other significant comments or recommendations of the independent auditors or the RIO's management;
 - The adequacy of the RIO's internal accounting controls and accounting policies, procedures, and practices; and
 - Understand the scope of independent auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with the RIO's management responses.
- Consider the effectiveness of the RIO's internal control system, including information technology security and control.
- Consider whether the financial statements are complete, consistent with information known to committee members, and reflect appropriate accounting principles. This will include the following, as applicable:
 - The accuracy and completeness of the information in other sections of the annual report and related regulatory filings;
 - The significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements; and
 - All matters required to be communicated to the Committee under generally accepted auditing standards with the RIO's management and the independent auditors.
- Review non-audit services, if any, performed for the RIO by the independent auditors.

Audit Services

- Review the effectiveness of the Audit Services function, including compliance with The Institute of Internal Auditors' *International Professional Practices Framework for Internal*

Auditing consisting of the Definition of Internal Auditing, Code of Ethics and the Standards, as adopted by the Committee.

- Review with the RIO's management and the Supervisor of Audit Services the audit charter, activities, staffing, and organizational structure of Audit Services.
- Have final authority to review and approve the annual work plan and all major changes to the plan.
- Meet with the RIO's Supervisor of Audit Services to discuss any matters that the Committee or Audit Services believes should be discussed privately (out of the presence of RIO's management and/or the independent auditors, as appropriate) and review any restrictions on the audit work.
- Participate with RIO's management in the appointment of the Supervisor of Audit Services, and evaluation of the performance of the Supervisor of Audit Services. Approve any changes in staffing; including the addition, termination, or replacement of auditors, and the approval of salary increases and/or promotions other than those authorized by the legislature.

Compliance

- Review compliance by TFFR participating employers as it relates to TFFR laws, rules and policies.
- Review the RIO's staff compliance with federal and state law; North Dakota administrative code; and the SIB and TFFR Board programs.
- Review the process for communicating the code of conduct to the RIO's staff, and for monitoring compliance therewith.
- Obtain updates from the RIO's management and legal counsel regarding compliance matters.

Reporting Responsibilities

- Report to the SIB about the Committee's activities, issues, and related recommendations.
- Provide a written report annually to the SIB, describing the Committee's composition, responsibilities and how they were discharged, and any other information required.

Other Responsibilities

- Make recommendations to the North Dakota State Auditor's Office, when appropriate, as it relates to selection, evaluation, and termination of independent auditors.
- Obtain the information and training needed to enhance the committee members' understanding of the role of Audit Services and the independent auditor; the risk

management process; internal controls; and a certain level of familiarity in financial reporting standards and processes for the Committee may adequately oversee.

- Serve as an open avenue of communication among the SIB; the RIO's management and Audit Services; the independent auditors; and others.
- Serve as an appropriate confidential mechanism for individuals to provide information on potentially fraudulent financial reporting or breaches of internal control.
- Inquire as to the procedure for the prevention of illegal payments, conflicts of interest, or other questionable practices. Inquire as to the existence of any illegal payments, conflicts of interest, or other questionable acts. Review the Code of Conduct, rules, and policies applicable to the RIO.
- Meet with the RIO's management to discuss any matters that the Committee or management believes should be discussed privately (out of the presence of Audit Services staff and/or the independent auditors, as appropriate) and review any restrictions on the audit work.
- Perform other activities related to this charter as requested by the SIB.
- Institute and oversee special investigations as needed.
- Review any other reports the RIO issues that relates to the Committee's responsibilities.
- Review and assess the adequacy of the Committee charter annually, requesting the SIB approval for proposed changes.
- Confirm annually that all responsibilities outlined in this charter have been carried out.

DATE OF CREATION OF COMMITTEE AMENDMENTS: December 14, 1993

DATE AUDIT COMMITTEE CHARTER ADOPTED AND APPROVED: June 24, 1994

REVISED: November 22, 1996, February 13, 1997, November 6, 2001, May 19, 2006, May 18, 2007, June 26, 2009.

SIB AUDIT COMMITTEE ANNUAL PLANNING CALENDAR JULY 2013 - JUNE 2014

JULY 2013	AUGUST 2013	SEPTEMBER 27, 2013	OCTOBER 2013	NOVEMBER 22, 2013	DECEMBER 2013
<p>TFFR Mtg. – 7/25/13 SIB Mtg. – 7/26/13</p> <ul style="list-style-type: none"> SIB appoints Audit Committee 	<p>SIB Mtg. – 8/23/13</p>	<ul style="list-style-type: none"> Election of Chair and Vice Chair. Internal Audit Activities Report. Audit Committee Charter review Audit Committee update memo to SIB <p>* Meeting at 1:00 p.m. Peace Garden Room</p> <p>TFFR Mtg. – 9/26/13 SIB Mtg. – 9/27/13</p>	<p>TFFR Mtg. – 10/24/13 SIB Mtg. – 10/25/13</p>	<ul style="list-style-type: none"> Presentation of fiscal 2013 financial audit report by external auditors. Session with external auditors. Internal Audit Activities Report. <p>* Meeting at 1:00 p.m. Peace Garden Room</p> <p>SIB Mtg. – 11/22/13</p>	
JANUARY 2014	FEBRUARY 28, 2014	MARCH 2014	APRIL 2014	MAY 23, 2014	JUNE 2014
<p>TFFR Mtg. - 1/23/14 SIB Mtg. - 1/24/14</p>	<ul style="list-style-type: none"> Internal Audit Activities Report. Session with Internal Audit Unit Session with Rio Management <p>* Meeting at 1:00 p.m. – Peace Garden Room</p> <p>SIB Mtg. - 2/28/14</p>	<p>TFFR Mtg. - 3/27/14 SIB Mtg. - 3/28/14</p>	<p>TFFR Mtg. – 4/24/14 SIB Mtg. - 4/25/14</p>	<ul style="list-style-type: none"> Entrance conference with external auditors. Internal Audit Activities Report. Review of fiscal 2015 audit plan. Plan annual agenda and meeting dates. <p>* Meeting at 1:00 p.m. Peace Garden Room</p> <p>SIB Mtg. - 5/23/14</p>	<p>SIB Mtg. - 6/27/14</p>