

# **ND STATE INVESTMENT BOARD AUDIT COMMITTEE MEETING**

**Friday, May 23, 2014 - 1:00 p.m.  
Peace Garden Room - State Capitol, Bismarck, ND**

## **AGENDA**

1. Call to Order and Approval of Agenda – Chair (committee action)
2. Approval of February 28, 2014 Minutes – Chair (committee action)
3. Presentation of Audit Scope for 7/1/13 – 6/30/14 agency audit and GASB 67/68 – Jason Ostroski, Clifton/Larson/Allen LLP (information)
4. GASB 67/68 Implementation Planning – Fay Kopp (information)
5. Executive Limitations Audit and Survey Update – Dave Hunter (information)
6. Audit Supervisor Recommendation – Dave Hunter and Fay Kopp (committee action)
7. 2013-14 Audit Activities Progress Report, 3<sup>rd</sup> Quarter – Dottie Thorsen (committee action)
8. 2014-15 Audit Services Work Plan and Time Budget – Chair Dorwart, Dave Hunter, and Fay Kopp (information)
9. 2014-15 Audit Committee Meeting Schedule – Fay Kopp (committee action)
10. Other Business  
Next SIB Audit Committee meeting – September 26, 2014
11. Adjournment

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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  
FEBRUARY 28, 2014, MEETING

**COMMITTEE MEMBERS PRESENT:** Rebecca Dorwart, Chair  
Lonny Mertz, Vice Chair  
Mike Gessner, TFFR Board/Liaison to the SIB  
Mike Sandal, PERS Board  
Cindy Ternes, Workforce Safety & Insurance

**STAFF PRESENT:** Bonnie Heit, Assistant to the Audit Committee  
David Hunter, Executive Director/CIO  
Fay Kopp, Deputy Executive Director/CRO  
Dottie Thorsen, Internal Auditor

**CALL TO ORDER:**

Ms. Dorwart called the State Investment Board (SIB) Audit Committee meeting to order at 1:00 p.m., on Friday, February 28, 2014, at the State Capitol, 600 E Blvd, Bismarck, ND.

A quorum was present for the purpose of conducting business.

**AGENDA:**

The Audit Committee considered the February 28, 2014, agenda.

**IT WAS MOVED BY MR. SANDAL AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE FEBRUARY 28, 2014, MEETING.**

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

**NAYS: NONE**

**MOTION CARRIED**

**MINUTES:**

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

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

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

**NAYS: NONE**

**MOTION CARRIED**

**AUDIT ACTIVITIES REPORT:**

Ms. Thorsen reviewed internal audit activities for the October 1, 2013 - December 31, 2013 period.

As of December 31, 2013, 10 audits were completed and two audits were in progress, and information for six districts was on file. As of February 28 2014, 14 audits have been completed, two are in progress, two not in compliance reviews have been completed, and notifications to five more districts were sent out.

Ms. Thorsen also indicated the TFFR File Maintenance Audit was completed. No exceptions were noted.

Staff also reviewed budgeted hours for the period ending December 31, 2013.

**IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. MERTZ AND CARRIED ON A VOICE VOTE TO ACCEPT THE INTERNAL AUDIT ACTIVITIES REPORT FOR THE PERIOD OF OCTOBER 1, 2013 - DECEMBER 31, 2013.**

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

**NAYS: NONE**

**MOTION CARRIED**

**GASB IMPLEMENTATION:**

Ms. Kopp informed the Audit Committee she has been meeting with the Public Employees Retirement System (PERS) and the State Auditor's Office representatives to review options and timeframes for implementing the new pension reporting standards, GASB Statements No. 67 and No. 68. The entities are working through the process in a joint effort, where appropriate, in order to reduce costs and provide consistency for state and local governments, school districts, and other Teachers' Fund for Retirement (TFFR) and PERS participating employers. Ms. Kopp also reviewed a draft timeline to implement the new standards.

**AUDIT SUPERVISOR POSITION:**

Ms. Kopp updated the Audit Committee on recruitment efforts for the Audit Supervisor vacancy. Ms. Kopp has been working with Ms. Dorwart, Mr. Hunter, and Mr. Lynn Hart, State Human Resource Management Services (HRMS) on filling the vacancy. The vacancy was first posted on December 31, 2013, and in order to expand the applicant pool, the position has been re-posted twice with the current closing date scheduled for March 18, 2014. Ms. Dorwart will also look into having the local chapter of the Institute of Internal Auditors (IIA) distribute the vacancy posting to its members. Ms. Kopp will continue to keep the Audit Committee up to date on the status of the position.

**STAFFING UPDATE:**

Mr. Hunter provided an update on office staff. Mr. Cody Schmidt assumed the role of Compliance Officer effective December 9, 2013, and Ms. Connie Flanagan was reinstated as Fiscal & Investment Operations Manager, effective January 22, 2014. Mr. Gary Vetter, Information Technology Supervisor, will retire March 31, 2014, and Mr. Rich Nagel, will be promoted into the position effective April 1, 2014. Positions left to be filled are the Audit Supervisor, Information Technology Coordinator, and Investment Analyst and staff is addressing those vacancies.

**OTHER:**

The next Audit Committee meeting is scheduled for May 23, 2014, 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 1:35 p.m.

Respectfully Submitted:

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Ms. Rebecca Dorwart, Chair  
SIB Audit Committee

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Bonnie Heit  
Assistant to the Audit Committee

# MEMORANDUM

**TO:** SIB Audit Committee

**FROM:** Fay Kopp, Chief Retirement Officer

**DATE:** May 16, 2014

**SUBJ:** 2013-14 RIO Audit and GASB

Mr. Jason Ostroski, Clifton Larson Allen LLP, will be at the meeting to present the scope of the RIO audit for the fiscal year ending June 30, 2014. He will also provide information relating to the new GASB statements 67 and 68.



May 23, 2014

**Presentation to:**

**North Dakota Retirement and Investment Office –  
2014 Audit Kick-off**



**CliftonLarsonAllen**

[www.cliftonlarsonallen.com](http://www.cliftonlarsonallen.com)

# Engagement Scope

- Audit of the RIO's financial statements as of June 30, 2014.
- Report on Internal Controls and Compliance (in accordance with Government Auditing Standards).
- Written Communications with the Board

# Work Plan

- Audit to be conducted in accordance with governmental auditing standards generally accepted in the United States of America
- Phased Approach – Planning, Internal Control, Substantive and Reporting

# Critical Audit Areas

- Investments
- Contributions
- Benefit payments
- Actuarial data

# Critical Audit Areas - Investments

- Investments
  - Understanding of internal controls
    - ◇ Walkthroughs
      - Reconciliation procedures
      - Initial due diligence and on-going monitoring
      - Compliance monitoring
    - ◇ Review custodial bank's SSAE 16 report
  - Substantive procedures
    - ◇ Confirmation of custodial and non-custodial investments
    - ◇ Price testing of equity and fixed income securities
    - ◇ Review of audited financial statements and roll-fowards of non-custodial (alternative) investments

# Critical Audit Areas - Contributions

- Understanding of internal controls
  - Review of internal audit procedures and reports
  - Walkthroughs of contribution and purchase of service processes
  - Test of controls over the contributions process
- Substantive procedures
  - Reconciliation of contributions from G/L to CPAS
  - Confirmation of contributions with employers
  - Analytical procedures

# Critical Audit Areas – Benefit Payments

- Understanding of internal controls
  - Review of internal audit procedures and reports
  - Walkthroughs of benefit payments processes; separate walkthroughs for disability, survivor, regular retirement and refund processes
  - Test of controls over the benefit payment processes
- Substantive Procedures
  - Reconciliation of benefit payments from G/L to CPAS
  - Analytical procedures

# Critical Audit Areas – Actuarial Data

- AU section 500.08 - use of a management specialist
  - Evaluate the competence, capabilities and objectivity of the specialist
    - ◇ Confirm actuaries independence and accreditation
    - ◇ Prior experience with the actuaries
  - Obtain an understanding of the work of the specialist
    - ◇ Review the nature, scope and objectives of the work of the specialist
  - Evaluate the appropriateness of the work of the specialist
    - ◇ Census data testing
    - ◇ Review of the actuary report and compare key assumptions to pension and actuarial industry standards

# Timing of Work

KEY MILESTONES	DATE
Planning	April 2014
Understanding and Testing of Internal Controls	April 2014
Substantive Procedures	August/September 2014
Final Audit Reports	September/October 2014

# Upcoming Issues

- New GASB Statements
  - Statement No. 67: *Financial Reporting for Pension Plans*
  - Statement No. 68: *Accounting and Financial Reporting for Pensions*
  - Statement No. 71: Pension Transition for Contributions Made Subsequent to the Measurement Date
- *Fair Value Measurement and Application*
  - *GASB is reviewing various aspects of fair value reporting and disclosures*
  - *Preliminary views document was released on June 3, 2013*
  - *Exposure draft expected to be issued May 2014*
  - *Final standards planned to be issued December 2014*

# GASB Pension Standards

Standard #	Title	Effective Date
GASB 67	Financial Reporting for Pension Plans	Fiscal Years beginning after June 15, 2013
GASB 68	Accounting and Financial Reporting for Pensions	Fiscal years beginning after June 15, 2014

# Highlights of GASB 67/68

- Scope limited to pensions provided through trusts that meet certain criteria
- Revises recognition, measurement, disclosure requirements for all employers
  - Liability
    - Measured net of pension plan's fiduciary net position
    - Fully recognized in accrual-basis financial statements
  - Changes in the liability
    - Some recognized as expense in the period of the change
    - Others recognized as deferred outflows/inflows of resources with expense recognized over defined future periods

# Scope & applicability

- Defined benefit and defined contribution pensions provided through trusts that meet the following criteria:
  - Employer/nonemployer contributions irrevocable
  - Plan assets dedicated to providing pensions
  - Plan assets legally protected from creditors
- Excludes all OPEB
- Applies to employers and nonemployer contributing entities that have a legal obligation to make contributions directly to a pension plan
  - Special funding situations
  - Other circumstances

# Defined benefit plans

- Liability to employees for pensions
  - “Net pension liability” (NPL)
    - ◇ Total pension liability (TPL), net of pension plan’s fiduciary net position
    - ◇ “Net pension liability” (NPL)
      - Total pension liability (TPL), net of pension plan’s fiduciary net position
        - TPL = actuarial present value of projected benefit payments attributed to past periods
        - Fiduciary net position as measured by pension plan
      - “Collective NPL” = NPL for all benefits provided through cost-sharing pension plan
    - ◇ Single/agent employers recognize 100 percent of NPL
    - ◇ Cost-sharing employers recognize proportionate shares of collective NPL

# NPL: Measurement—timing

- Potentially 3 different dates
  - FYE
  - Measurement date (of NPL)
    - As of date no earlier than end of prior fiscal year
    - Both components (TPL/plan net position) as of the same date
  - Actuarial valuation date (of TPL)
    - If not measurement date, as of date no more than 30 months (+1 day) prior to FYE
    - Actuarial valuations at least every 2 years (more frequent valuations encouraged)
- Coordination with pension plan

# Changes in NPL

- Calculated from measurement date to measurement date (“measurement period”)

**NPL recognized in current reporting period**  
**(NPL recognized in prior reporting period)**  
**Change in NPL for current reporting period**

# Changes in NPL

- Recognize most changes as expense in full in reporting period of change
  - Examples: service cost, interest on TPL, effects of benefit changes, projected earnings on pension plan investments
- Exceptions:
  - Differences between expected and actual experience (TPL)
  - Changes of assumptions (TPL)
  - Difference between projected and actual earnings on pension plan investments
  - Employer contributions

# NPL: Cost-sharing employers—additional considerations

- Potentially three items
  1. Net effect of change in proportion
  2. Difference between:
    - Employer's proportionate share of all employer contributions included in collective plan net position
    - Contributions recognized by the employer in the measurement period
  3. Employer's contributions subsequent to measurement date

# NPL: Note disclosures and RSI

- Descriptive information
  - Type of plan, identification of administrator
  - Benefit terms—types of benefits, key elements of benefit formula, classes of employees covered, legal authority
  - Contributions—basis, authority, rates (\$ or % of pay), contributions in reporting period
  - Availability of plan report
- Significant assumptions/other inputs in TPL
  - Inflation, salary changes, postemployment benefit changes, mortality assumptions, dates of experience studies
  - Discount rate—rate, assumptions re: cash flows, how LTeRoR determined, municipal bond rate (if applicable), periods to which each rate applied, assumed asset allocation/expected real rates of return, NPL at discount rate +/- 1%

# NPL: Note disclosures and RSI

- Components of NPL & net position as % of TPL (1 year)
- Measurement date, actuarial valuation date
- Changes of assumptions/other inputs and changes of benefit terms
- Changes subsequent to measurement date

# NPL: Note disclosures and RSI

- Annual money-weighted rate of return (1 year in notes; 10 years in RSI)
- RSI for single-employer and cost-sharing pension plans (10 years):
  - Schedule of changes in NPL by source
  - Components of NPL/related ratios
  - Schedule of actuarially determined contributions

# GASB 71 Overview

- GASB recognized that retirement plans will need to provide participating employers with information on deferred inflows and outflows of resources.
- GASB Statement No. 68 provides employers, in the year of implementation, the ability to forgo reporting beginning balances for deferred inflows and deferred outflows of resources if beginning balances are unavailable.
- GASB Statement No. 71 provides that employers participating in a retirement plan should include a beginning balance for deferred pension contributions, as this value can be calculated from the employer's own records

# GASB 71 Overview (continued)

- GASB 71 provides that in the event that beginning balances for deferred items cannot be determined for the pension plan, employer' should still present a deferred pension outflow for the period between the measurement date and the employer's year-end
- Therefore since the employer's records contain the value of contributions paid between the system's measurement date and the employer's year-end, deferred pension outflows should be included in the employer's financial statement in the year of implementation.
- Effective date - Should be applied simultaneously with GASB 68



# Overview of Updated GASB 67/68 Guidance

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# AICPA Recommendations

- Two White Papers – non-authoritative
  - Government Employer Participation in Cost-Sharing Multiple Employer Plans: Issues Related to Information for Employer Reporting
  - Single Employer and Cost Sharing Multiple Employer Plans: Issues Associated with Testing Census Data
- Three Audit Interpretations- authoritative
  - AU-C Section 9500 – Audit Evidence
  - AU-C Section 9600 – Audits of Group Financial Statements (Including the Work of Component Auditors)
  - AU-C Section 9805 – Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement

# Cost-Sharing Multiple-Employer Plans – AICPA Recommendations

- **Include supplemental “schedule of employer allocations” in plan financial statements for which plan auditor is engaged to provide opinion.**
  - Use allocation method based on covered payroll or required (actual) contributions depending on whether there are different classes of benefits and whether allocations expected to be representative of future contributions
  - Projected future contributions could be used if necessary
  - Standard does not preclude employers from calculating their own allocation percentage; however, this could potentially result in different employers who participate in same plan allocating collective pension amounts on a different basis. Additionally, it could be difficult for employer auditor to get sufficient competent audit evidence on allocation. For example,
    - If employer allocates based on covered payroll, the denominator for the calculation (i.e. total covered payroll) is not audited by plan auditors.
    - If employer allocates based on rates, you don’t know if that same relative percentage goes to the liability

# Example Schedule of Employer Allocations

## EXAMPLE COST SHARING PENSION PLAN

Schedule of Employer Allocations

June 30, 2015

<b>Employer/ Nonemployer (special funding situation)</b>	<b>2015 Actual Employer Contributions</b>	<b>Employer Allocation Percentage</b>	
State of Example	\$ 2,143,842	38.9	%
Employer 1	268,425	4.9	
Employer 2	322,142	5.8	
Employer 3	483,255	8.8	
Employer 4	633,125	11.5	
Employer 5	144,288	2.6	
Employer 6	95,365	1.7	
Employer 7	94,238	1.7	
Employer 8	795,365	14.4	
Employer 9	267,468	4.9	
Employer 10	267,128	4.8	
<b>Total</b>	<b>\$ 5,514,641</b>	<b>100.0</b>	

# Cost-Sharing Multiple-Employer Plans – AICPA Recommendations

- Plan prepare “schedule of plan pension amounts by employer” for which plan auditor engaged to provide opinion
  - Supplemental schedule of plan pension amounts by employer includes net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense for each employer
    - ◇ An alternative could be to include a “schedule of collective pension amounts” for the plan as a whole
    - ◇ Plan auditor needs to consider the appropriateness of the materiality used in the audit of PERS financial statements.
  - Employer auditor issues opinion on total of each of the four “elements” in accordance with AU-C 805
    - ◇ Net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense

# Example Schedule of Plan Pension Amounts by Employer

## EXAMPLE COST SHARING PENSION PLAN

Schedule of Pension Amounts by Employer  
As of and for the year ended 6/30/20X5

Entity	Net Pension Liability	Deferred Outflows of Resources					Deferred Inflows of Resources				Pension Expense		
		Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on Pension Plan	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Outflows of Resources	Differences Between Expected and Actual Experience	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	Proportionate Share of Pension Expense	Employer Contributions	Total Employer Pension Expense
Employer 1	\$ 45,224,620	438,859	1,589,847	1,404,208	695,426	4,108,338	355,917	-	726,425	1,082,342	1,907,283	12,375	1,919,658
Employer 2	5,661,780	54,942	196,533	175,796	84,231	511,502	44,558	-	74,326	118,884	238,777	(1,793)	236,984
Employer 3	6,795,628	65,945	235,892	211,001	117,354	630,192	53,481	-	98,465	151,946	286,596	(8,088)	278,508
Employer 4	10,193,442	98,917	353,838	316,502	161,215	930,472	80,222	-	165,453	245,675	429,894	3,021	432,915
Employer 5	13,355,038	129,597	463,584	414,668	199,845	1,207,694	105,103	-	197,645	302,748	563,229	(9,900)	553,329
Employer 6	3,043,487	29,534	105,646	94,499	53,453	283,132	23,952	-	48,453	72,405	128,355	599	128,954
Employer 7	2,011,585	19,520	69,827	62,459	33,458	185,264	15,831	-	35,345	51,176	84,836	625	85,461
Employer 8	1,987,964	19,291	69,007	61,725	35,425	185,448	15,645	-	16,453	32,098	83,839	(5,712)	78,127
Employer 9	16,777,717	162,811	582,393	520,941	248,356	1,514,501	132,040	-	284,543	416,583	707,576	8,405	715,981
Employer 10	5,641,888	54,749	195,843	175,178	95,465	521,235	44,401	-	44,356	88,757	237,938	(1,188)	236,750
Employer 11	8,512,562	82,606	295,490	264,312	136,453	778,861	66,993	-	148,543	215,536	359,005	1,254	360,259
Employer 12	3,499,761	33,962	121,485	108,666	52,145	316,258	27,543	-	64,354	91,897	147,597	453	148,050
Employer 13	1,443,418	14,007	50,104	44,818	23,156	132,085	11,360	-	33,453	44,813	60,874	(205)	60,669
Employer 14	131,785	1,279	4,575	4,092	1,968	11,914	1,037	-	894	1,931	5,558	147	5,705
Employer 15	44,757	434	1,554	1,390	1,456	4,834	352	-	698	1,050	1,888	7	1,895
<b>Total for All Entities</b>	<b>\$ 124,325,432</b>	<b>1,206,453</b>	<b>4,315,618</b>	<b>3,860,253</b>	<b>1,939,406</b>	<b>11,321,730</b>	<b>978,435</b>	<b>-</b>	<b>1,939,406</b>	<b>2,917,941</b>	<b>5,243,245</b>	<b>-</b>	<b>5,243,245</b>

# Example Schedule of Collective Pension Amounts

## EXAMPLE COST SHARING PENSION PLAN

Schedule of Collective Pension Amounts

As of and for the year ended 6/30/20X5

	Deferred Outflows of Resources				Deferred Inflows of Resources				
	Net Pension Liability	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes of Assumptions	Total Deferred Outflows of Excluding Employer Specific Amounts *	Differences Between Expected and Actual Experience	Changes of Assumptions	Total Deferred Inflows of Excluding Employer Specific Amounts *	Plan Pension Expense
\$	124,325,432	1,206,453	4,315,618	3,860,253	9,382,324	978,435	–	978,435	5,243,245

\* Employer specific amounts that are excluded from this schedule are the changes in proportion and differences between employer contributions and proportionate share of contributions as defined in paragraphs .54 and .55 of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

# Cost-Sharing Multiple-Employer Plans – Testing of Underlying Census Data of Active Employees

- First, the plan auditor must examine controls in place at the plan over the completeness and accuracy of the census data.
  - Absence of effective management procedures and controls by plan to verify census data is considered a control deficiency and will impact level of auditor testing.
- Next, the plan auditor will select employers to test active employee census data utilizing a risk-based approach
  - State Auditor has requested a proposal for these services.
  - Inactive and retired members census data will be tested at the plan.

# Cost-Sharing Multiple-Employer Plans – Testing of Underlying Census Data of Active Employees

- Preliminary estimates utilizing the white paper methodology result in an annual sample size of 15 to 20 employers.
- CLA must take ownership of the sampling and results of testing however we may be able to leverage internal audit resources to assist with testing.
- Employer auditor may perform procedures under examination engagement in accordance with AT (Attest) section 101

# Cost-Sharing Multiple-Employer Plans – Employer Auditor Responsibilities

- Determine sufficiency and appropriateness of audit evidence
- Evaluate whether plan auditor's report on schedules are adequate and appropriate for auditor purposes (i.e. evidence)
  - Review plan auditor's report and any related modifications
  - Evaluate whether plan auditor has necessary competence and independence
- Verify and recalculate amounts in schedules specific to employer
  - Employer amount used in allocation percentage (numerator)
  - Recalculate allocation percentage of employer
  - Recalculate allocation of pension amounts based on allocation percentage of employer
- Test census data submitted to plan

# Audit Interpretations – AU-C 9500

- Audit Evidence
- Auditor of Participating Employer in a Governmental Cost-Sharing Multiple-Employer Pension Plan
- Not enough evidence from plans audited financial statements to opine on the GASB 68 numbers for the employer
- Employer auditor may use reports discussed in the cost-sharing white papers to reduce audit risk associated with GASB 68 numbers
  - Employer auditor must evaluate the plan auditors report and the plan auditor

# Audit Interpretation – AU-C Section 9600

- Audits of Group Financial Statements (Including the Work of Component Auditors)
- Auditor of Participating Employer in a Governmental Pension Plan
- Plan is not a component of employer and employer auditor cannot reference plan auditors opinion.

# Audit Interpretations – AU-C Section 9805

- Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement
- Directed to Auditors of Governmental Cost-Sharing Multiple Employer Plans
- Schedules recommended in the cost sharing plan white paper can be audited and an audit opinion can be issued on those schedules under AUC-805.
- Materiality must be calculated on each individual element for the auditor to opine.

# Other GASB 67/68 Guidance Available

- GASB 67 Implementation Guide – released June 2013
- GASB 68 Implementation Guide – released January 2014
- New Chapter in the State and Local Government Audit Guide – yet to be released

# FINAL THOUGHTS

- Effective communication between plans, participating employers and other stakeholders is essential.
- Addition of significant liability and expense to employers financial statement – not related to employer’s obligation to fund
- Increased disclosure and accounting requirements
- Increased volatility
- Communication to stakeholders
- Bond rating and Impact of rating agency methodology
- Complexity of the standards – Confusion and misuse could occur. Need to stress accounting change for employers, not funding change
- Much education and communication is needed



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# MEMORANDUM

**TO:** SIB Audit Committee

**FROM:** Fay Kopp, Deputy Executive Director/Chief Retirement Officer

**DATE:** May 16, 2014

**SUBJ:** GASB 67/68 Implementation Planning

## **NEW PENSION STANDARDS**

As you know, the Governmental Accounting Standards Board (GASB) issued two new standards in June 2012 that will substantially change the accounting and financial reporting of public employee pension plans and the state and local governments that participate in such plans.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, revises existing guidance for the financial reports of most governmental pension plans (i.e. NDTFFR and NDPERS). Statement No. 67 is effective for financial statements for periods beginning after June 15, 2013.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits (i.e. school districts, cities, counties, state). Statement No. 68 is effective for financial statements for fiscal years beginning after June 15, 2014.

## **PROPOSED IMPLEMENTATION PLAN FOR NDTFFR**

Since the new GASB provisions will apply to both NDTFFR and NDPERS, we have been working closely together and with Ron Tolstad, State Auditor's Office (SAO), on plans to implement the new GASB standards. The goal of this joint effort is to reduce costs, reduce duplication of effort, and provide consistent reporting to participating employers. RIO employees on the GASB implementation team include Shelly Schumacher, Connie Flanagan, and Fay Kopp. Discussions also include plan actuaries (two different Segal consultants for TFFR and PERS) and plan auditors (Clifton Larson Allen for TFFR and Brady Martz for PERS). Similar discussions are happening with other pension plans, actuaries, and auditors around the country.

We have developed the following plan which includes three basic tasks:

- Educate stakeholders and participating employers.
- Develop the necessary information for RIO/TFFR financial statements, and the information which will be sent to participating employers for inclusion in employer financial statements.
- Integrate this effort into the ongoing operations of the plan going forward.

### 1) **Educate stakeholders and participating employers**

To date, we have relied on TFFR's actuarial consultant, Segal, to provide broad education to the TFFR Board and Legislative Employee Benefits Programs Committee. Staff has then utilized much of this information in their general presentations to other stakeholder groups and employers.

However, as we move into the more detailed aspects of the implementation effort, more specific training is needed. For this step, TFFR and PERS have been discussing with the State Auditor's Office jointly sponsoring GASB 67/68 educational sessions. We first plan to bring together a small focus group of participating TFFR and PERS employers (6 employers from TFFR and 6 from PERS) and invite the business manager, administrator, and auditor of each employer. We would provide education to this group, review the actuarial/financial information that we will be providing to them, and work with them to identify and address issues they may have with the implementation. We have tentatively scheduled June 26, 2014 for this meeting, and expect to have 50-75 people attend.

The next step is to facilitate a statewide educational session for all TFFR and PERS employers which would also be jointly sponsored by TFFR, PERS, and the State Auditor's Office. The purpose of this meeting would be similar to the first small group meeting, but we would also add the lessons learned in working with our pilot group, refine the implementation plan, and incorporate any other new guidance. We are targeting November 18, 2014 for this meeting and expect to have 200-400 people attend. We also plan to webcast or record this meeting for employers who are unable to attend.

To conduct the educational sessions, we have identified Eric Berman, a consultant from Eide Bailly, who has been working with other state and local governments around the country to implement GASB 67/68. Eide Bailly is also an auditor that the State Auditor's Office uses. We have received a cost estimate and scope of services which the TFFR Board is reviewing. We anticipate TFFR and PERS sharing these expenses. However, work relating specifically to one system or the other would be that system's responsibility.

Staff will continue to include GASB information in presentations to legislative committees and other interested parties (ND School Business Manager Association, ND School Board Association, ND Council of Educational Leaders, ND United, ND Retired Teachers Association, ND School Study Council, etc.).

**2) Develop the necessary information for RIO/TFFR financial statements, and the information which will be sent to participating employers for inclusion in employer financial statements.**

GASB now requires certain additional information that must be disclosed in the plan's financial statements, as well as certain information and disclosures that must now be sent to employers and disclosed on employer financial statements. This information should be calculated by the plan's actuary according to the recommendations of the AICPA (American Institute of Certified Public Accountants). Extensive disclosure items will also need to be prepared and reported in notes to financial statements. We have received a cost estimate and production timeline from TFFR's actuarial consultant, Segal Company, which the TFFR Board is reviewing. Anticipated timeline for delivery of certain items by actuary is shown in the following table.

ITEM	TIMEFRAME	RESPONSIBILITY
DISCUSSIONS WITH AUDITORS	MARCH 2014	PERS/TFFR/SEGAL/STATE AUDITOR/BRADY/MARTZ/CLIFTON LARSON
2013 GASB 67 RESULTS FOR 2013-2014 RECONCILIATION	JULY 1, 2014	SEGAL
2014 VALUATION DATA/ASSETS DELIVERY	JULY-AUGUST 2014	PERS/TFFR
2014 VALUATION RESULTS DELIVERY	OCTOBER 15, 2014	SEGAL
2014 VALUATION RESULTS PRESENTATION	OCTOBER 23, 2014	SEGAL
2014 GASB 67 INTEREST RATE CALCULATIONS	OCTOBER 31, 2014	SEGAL
2014 GASB 67 RESULTS PREPARATION	OCTOBER 31, 2014	SEGAL
2014 GASB 67 DISCLOSURE ITEMS PREPARATION	OCTOBER 31, 2014	SEGAL/STATE AUDITOR/BRADY MARTZ/CLIFTON LARSON
2014 GASB 68 PERCENTAGE AND LIABILITY ALLOCATIONS	NOVEMBER 10, 2014	SEGAL
2014 GASB 68 ALLOCATIONS COMMUNICATED TO EMPLOYERS	NOVEMBER 2014	PERS/TFFR
EMPLOYER EDUCATION	ONGOING	PERS/TFFR/STATE AUDITOR

### **3) Integrate this effort into the ongoing operations of TFFR going forward**

Once we get through the initial GASB 67/68 implementation in 2014 and 2015, we will need to add the various tasks to the annual valuation effort by the actuary, annual audit effort by external auditor, and annual efforts by RIO staff to send this information to each TFFR participating employer.

#### **Summary**

While GASB has provided guidance for these new pension accounting and financial reporting requirements, there are many practical implementation issues that are still being identified. Cost sharing plans (like TFFR), and their employers (primarily school districts) face particular challenges, such as the need for employer auditors to depend on information developed by the retirement system and their actuarial consultant. More discussion, clarification, and decisions need to be made.

We do expect that actuarial calculations, schedules, and disclosures for GASB 67 and 68 will increase TFFR actuarial costs significantly, particularly in the first few years of implementation. Additionally, audit fees will also increase due to the additional work required to implement new standards. For example, the State Auditor's Office is planning to amend current audit contracts to include auditing GASB related schedules, notes and disclosures as well as auditing employer census data, including visiting selected employers on-site.

I have included in this memo some key points of the GASB implementation planning schedule. The TFFR Board and RIO staff have deemed GASB implementation to be a very high priority. It is imperative that accurate information be calculated, distributed, and included on the financial statements of RIO (beginning in 2014), and TFFR participating employers (beginning in 2015), in order to comply with GASB requirements.

**MEMO**

**TO: SIB Audit Committee**

**FROM: David Hunter, Executive Director / Chief Investment Officer**

**DATE: May 23, 2014**

**SUBJ: Audit Supervisor**

**Recommendation to the State Investment Board (“SIB”) Audit Committee:**

Given the significant growth in client assets under management by the SIB, the Executive Director recommends the Audit Committee approve an increase in the scope of services to be performed by the Supervisor of Audit Services for the Retirement and Investment Office (“RIO”). In conjunction with this recommendation, the RIO intends to work with HRMS to upgrade the position to an Auditor IV (Grade N) instead of the prior Auditor III (Grade L).

This recommendation has been reviewed and discussed with the Deputy Executive Director, Deputy Chief Investment Officer, and Supervisor of Fiscal Management from a budget planning and resource allocation perspective without exception.

Upon approval from the SIB Audit Committee, the RIO will work with HRMS to post for this new job description and seek to fill the vacancy during the third calendar quarter of 2014. The new Audit Supervisor IV position will be instrumental in developing expanded responsibilities for this important role so as to enhance accounting, compliance, reporting and transparency for SIB clients. The expanded responsibilities will be performed in addition to the current TFFR pension related responsibilities.

## **Audit Supervisor IV**

### **Expanded Responsibilities Proposed by the Executive Director to Enhance Accountability, Oversight, Reporting and Transparency**

**May 23, 2014**

The Audit Supervisor should complete the following procedures at the Client level on a quarterly (Q) and/or annual (A) basis and report to the SIB Audit Committee generally within 90 days post each quarter end.

1. Reconfirm adherence to Client level asset rebalancing guidelines including a three-way reconciliation of investment manager, custodian and RIO asset valuation reporting (Q);
2. Review Client level performance reporting displayed on the RIO website for accuracy, consistency, timeliness and transparency (Q);
3. Complete Executive Limitations questionnaire via interview with the Executive Director, review with the SIB Audit Committee, and document in a signed checklist format (A);
4. Interview Deputy Executive Director, Deputy CIO and Supervisor of Fiscal Management to confirm they are reasonably well informed of “executive and board issues and processes” (A);
5. Confirm the Administrative and Governance Manuals are updated annually (A);
6. Review Board Policies to determine if they differentiate between reporting guidelines for SIB Clients and legislative bodies versus special interest groups with no governing authority (A);
7. Review Board Policies with Executive Director or SIB Audit Committee Chairman to determine if new policies should be developed for emerging topics (i.e. litigation monitoring) (A);
8. Reconfirm reasonable due diligence was performed in completing biennium budget process (A);
9. Review new investment manager due diligence for accountability, documentation standards, independence, reasonableness and transparency (A);
10. Enhance accountability to confirm adherence to “Communication and Counsel to the Board” by reviewing SIB presentation materials and documenting via a signed quarterly checklist (Q);
11. Review “Asset Protection” documentation procedures on an annual basis (A);
12. Reconfirm annual affirmation of Conflict of Interest Policy, Code of Conduct and Unrelated Business Interests via review of signed employee acknowledgements by all RIO staff (A);
13. Confirm SIB Clients obtain satisfactory service from the RIO Office by conducting an annual survey for each SIB Client and each SIB member (A);
14. Review documentation for each Client to support the reasonableness of “Investment Services” returns net of fees and expenses, standard deviation and risk adjusted performance (A); and
15. Assess the Executive Director’s strategic plan for Board Education and Governance which includes a minimum of 10 hours of formal Board Education for each SIB member annually (A).

**AUDITOR III  
CLASS 0243, GRADE L**

**WORK TITLE:** Supervisor of Audit Services

Job Duties

1. Develop and execute a comprehensive, practical program of audit coverage consistent with Retirement and Investment Office (RIO) goals, administrative structure, and audit standards, under the direction of the SIB Audit Committee and RIO Executive Management.
  - a. Coordinate Audit Committee meetings.
  - b. Develop and update audit charter.
  - c. Develop and monitor audit work plan and time budget.
  
2. Plan, manage, and conduct audits and compliance reviews to determine compliance with applicable laws, rules, policies, plans, procedures, and controls.
  - a. Conduct preliminary audit research and planning.
  - b. Determine and apply audit tests.
  - c. Examine documents to determine accuracy and compliance with administrative and legal requirements.
  - d. Prepare supporting documents and schedules.
  - e. Prepare audit reports, and present findings and recommendations to RIO Executive Management and Audit Committee.
  - f. Document, evaluate effectiveness, and update audit procedures.
  - g. Manage, establish schedule, and perform risk assessment of TFFR employer compliance audit program.
  
3. Audits and compliance reviews performed by Audit Services include, but are not limited to:
  - a. Board and Committee compliance with SIB governance policies.
  - b. TFFR employer reporting of salaries and contributions.
  - c. TFFR claims payments and processes.
  - d. TFFR member account maintenance.
  - e. Other agency or program audits or reviews as determined by Audit Services.
  - f. Special audits at the direction of the Audit Committee or RIO Executive Management.
  
4. Supervise Audit Services Staff
  - a. Supervise and evaluate the work activities of audit services staff.
  - b. Assist with recruiting, hiring, and training.
  - c. Plan and assign work duties.

Updated 12.23.13

# MEMORANDUM

**TO:** SIB Audit Committee

**FROM:** Fay Kopp, Deputy Executive Director - Chief Retirement Officer

**DATE:** May 16, 2014

**SUBJ:** 2013-14 Audit Progress Report

Attached is the Audit Activities Progress Report and Budgeted Hours Report for the 3rd quarter ending March 31, 2014 which Dottie Thorsen will review at the meeting.

As the Audit Committee is aware, due to the reduced audit staffing level since July 2013, the 2013-14 annual work plan goals will not be met. However, Dottie has made good progress on the work plan, and to date has completed 19 regular school district compliance audits, and 2 not in compliance reviews. She has completed other scheduled retirement program audits, in addition to performing various administrative audit duties temporarily re-assigned to her. I greatly appreciate her efforts.

Enclosures

**RETIREMENT AND INVESTMENT OFFICE  
INTERNAL AUDIT SERVICES UNIT**

**AUDIT ACTIVITIES REPORT FOR THE THIRD QUARTER  
JANUARY 1, 2014 THROUGH MARCH 31, 2014**

The audit objective of the Internal Audit Services Unit (Audit Unit) is twofold: first, to provide comprehensive, practical audit coverage of the Retirement and Investment Office (RIO) programs; second, to assist RIO management and the State Investment Board (SIB) by conducting special reviews or audits.

Our audit coverage is based on the Fiscal Year July 1, 2013 through June 30, 2014 Work Plan. The Work Plan is consistent with the Audit Unit charter and goals, and the goals of RIO. To the extent possible, our audits are being carried out in accordance with the International Standards for the Professional Practice of Internal Auditing. Audit effort is being directed to the needs of RIO and the concerns of management and the SIB Audit Committee.

**REGULAR AUDIT COVERAGE**

**Retirement Program**

- **School District Reporting**

We are examining school district reporting to the Teachers' Fund for Retirement (TFFR) to determine that retirement salaries reported for members of TFFR 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 calculation of service hours and eligibility for TFFR membership. A written report is issued after each audit examination is completed.

The 2013/14 Work Plan includes a goal of 52 school district audits and 7 not in compliance reviews. However, due to the Audit Supervisor's retirement as July 12, 2013, the goal is not expected to be met. We do plan to complete 24 school district audits and 4 not in compliance reviews. As of March 31, 2014, 15 audits and 2 not in compliance reviews were completed. The attached report details the current status of these audits. (Note: As of May 16, 2014, 19 audits have been completed, 2 audits and 2 not in compliance reviews are in progress.)

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

- **TFFR File Maintenance**

We periodically test changes made to TFFR member account data by RIO employees. Journals are generated daily and monthly indicating any file maintenance changes made.

One exception was noted (2 birth dates were not posted to CPAS correctly).

**SUMMARY**

The 2013/14 Work Plan adjustments were necessary because of the Audit Supervisor's retirement, however, audit effort will continue on activities that are of greatest concern to the SIB Audit Committee, RIO management, and the external auditors.



**North Dakota Retirement and Investment Office**  
**SCHOOL DISTRICT AUDIT PROGRESS AND STATUS REPORT**  
**For the Fiscal Year July 1, 2013 - June 30, 2014**

Auditor	School District	100% or on- site	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
50	open	James River Multidistrict											
51	open	Dickinson											
52	DT	Mayville-Portland C-G											
Average								65	29	156	101	58	46

Assigned	Total Audit Days	Average Audit Days	Audits Completed	Total Hours	Average hrs	Act aud days
24 DT	1,093	57.5	19	867	46	5.7

**NOT IN COMPLIANCE FOLLOW-UP REVIEWS**

Auditor	School District	100% or 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	hours to complete
1	DT	Williston	1/7/2014	1/29/2014	4/14/2014		In progress	217	22		75		
2	Hold	McClusky						18					
3	Hold	Ft. Yates						35					
4	DT	Kindred	1/7/2014	1/23/2014	1/31/2014	2/11/2014	Done	54	16	19	8	11	In compliance 15
5	Hold	Minnewaukan						36					
6	DT	Powers Lake	10/10/2013	11/25/2013	12/24/2013	1/29/2014	Done	19	46	65	29	36	In compliance 23
7	DT	Dunseith	1/7/2014	2/10/2014	4/24/2014		In progress	54	34		73		
Average								86	30	42	46	24	19

Assigned
4 DT

**REPORT ON COMPLIANCE AUDIT  
FOR REPORTING AND PAYMENTS  
TO THE TEACHERS' FUND FOR RETIREMENT  
MADDOCK SCHOOL DISTRICT  
MARCH 12, 2014**

**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 RIO/TFFR Management 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 and contributions 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 for fiscal years 2010/11 through 2011/12 reported by the Maddock School District were in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following finding 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 reporting salary to TFFR. The website address is [www.nd.gov/rio/TFFR/Publications](http://www.nd.gov/rio/TFFR/Publications).

The District did not issue contracts or written agreements for members who taught summer salary. TFFR recommends that the District provide written agreements for summer salary for all members. A written agreement can be a contract, school board minutes or other official document evidencing a contractual relationship between a teacher and a participating employer. In the future, if written agreements are not issued to teachers from outside the District or teachers without a continuing contract with the District, the salary would not be reported.

Please provide a written response on the District's intent to correct the above finding by April 15, 2014.

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 Thorsen  
Auditor

bh  
Enclosures

**REPORT ON COMPLIANCE AUDIT  
FOR REPORTING AND PAYMENTS  
TO THE TEACHERS' FUND FOR RETIREMENT  
MANVEL ELEMENTARY SCHOOL  
FEBRUARY 27, 2014**

**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 RIO/TFFR Management 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 and contributions 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 Manvel Elementary 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 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 for fiscal years 2010/11 through 2011/12 reported by the Manvel Elementary School 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 reported the incorrect salary and service hours for one retired member in 2011/12.
2. The District reported service hours incorrectly for four part-time teachers.

## **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](http://www.nd.gov/rio/TFFR/Publications).

### Finding 1:

The District did not report all eligible salary for one retired member in 2011/12. This error was an isolated occurrence. Since the salary amount was immaterial, no correction will be made to the account. Also, too many service hours were reported to TFFR. There will also be no correction to the service hours reported because the maximum hours reported for a retired member was not exceeded. (See the Primary Test).

### Finding 2:

The District reported service hours incorrectly for four part-time members. RIO will correct the member's accounts and notify them that adjustments have been made (See Schedule 5 for each member).

Please provide a written response on the District's intent to correct the above errors by March 31, 2014.

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 Thorsen  
Auditor

bh  
Enclosures

**REPORT ON COMPLIANCE AUDIT  
FOR REPORTING AND PAYMENTS  
TO THE TEACHERS' FUND FOR RETIREMENT  
MEDINA SCHOOL DISTRICT  
APRIL 2, 2014**

**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 RIO/TFFR Management 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 and contributions 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 for fiscal years 2010/11 through 2011/12 reported by the Medina School District 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 reported salary in the wrong fiscal year for two members.
2. The District did not report eligible extra-class pay for ten members.

## **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](http://www.nd.gov/rio/TFFR/Publications).

### Finding 1:

The District reported salary in the wrong fiscal year for two members (Athletic Director and Driver's Education). Salary is reportable in the fiscal year in which the pay is earned. The salary will be moved to the correct fiscal year (see the Primary Test and Worksheet for Correcting Accounts). Since both of the members earned a full year of service credit, there was no correction needed to service hours. The error caused an overpayment of member/employer contributions due to the contribution rate changes. RIO will notify the members that adjustments have been made to their accounts. It is the responsibility of the District to return overpaid contributions to the member.

### Finding 2:

The District did not report eligible extra-class salary for ten members in 2011/12 and 2012/13. The extra-class salary was in-staff subbing and test proctoring. Since the salary amounts were immaterial, no correction will be made to the accounts (see the Primary Test).

The amount overpaid for Finding 1 is \$35.63 (Schedule 2). The check for the amount overpaid will be 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 by May 6, 2014.

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 Thorsen  
Auditor

bh  
Enclosures

**REPORT ON COMPLIANCE AUDIT  
FOR REPORTING AND PAYMENTS  
TO THE TEACHERS' FUND FOR RETIREMENT  
MINTO SCHOOL DISTRICT  
APRIL 4, 2014**

**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 RIO/TFFR Management 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 and contributions 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 for fiscal years 2010/11 through 2011/12 reported by the Minto School District were in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). There were no exceptions noted.

**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](http://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 Thorsen  
Auditor

bh  
Enclosures

**REPORT ON COMPLIANCE AUDIT  
FOR REPORTING AND PAYMENTS  
TO THE TEACHERS' FUND FOR RETIREMENT  
PINGREE-BUCHANAN SCHOOL DISTRICT  
APRIL 23, 2014**

**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 RIO/TFFR Management 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 and contributions 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 2011/12 through 2012/13 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 2011/12 through 2012/13. 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 for fiscal years 2011/12 through 2012/13 reported by the Pingree-Buchanan School District 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 reported coaching salary without a written agreement for an out-of-district member.
2. The District reported service hours incorrectly for two part-time members.

## **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](http://www.nd.gov/rio/TFFR/Publications).

### **Finding 1:**

The District reported coaching salary without a written agreement for an out-of-district member. A written agreement can be a contract, school board minutes or other official document evidencing a contractual relationship between a teacher and a participating employer. In the future, if written agreements are not issued to teachers from outside the District or teachers without a continuing contract with the District, the salary would not be reported.

### **Finding 2:**

The District reported service hours incorrectly for two part-time members who taught during the summer. Both members were out-of-district teachers. No corrections will be made to the member's accounts because they earned a full year of service at another District. See Schedule 5 for each member.

Please provide a written response on the District's intent to correct the above finding by May 21, 2014.

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 Thorsen  
Auditor

Enclosures

**REPORT ON COMPLIANCE AUDIT  
FOR REPORTING AND PAYMENTS  
TO THE TEACHERS' FUND FOR RETIREMENT  
WEST RIVER STUDENT SERVICES  
MAY 6, 2014**

**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 RIO/TFFR Management 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 and contributions 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 2011/12 through 2012/13 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 2011/12 through 2012/13. 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 for fiscal years 2011/12 through 2012/13 reported by West River Student Services 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 reported summer salary without a written agreement.
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/riol/TFFR/Publications](http://www.nd.gov/riol/TFFR/Publications).

### Finding 1:

The District reported summer salary without a written agreement for a member. A written agreement can be a contract, school board minutes or other official document evidencing a contractual relationship between a teacher and a participating employer. In the future, if written agreements are not issued to teachers from outside the District or teachers without a continuing contract with the District, the salary would not be reported.

### Finding 2:

The District reported service hours incorrectly for one member. Because she has closed her TFFR account, no correction will be made. See Schedule 5 for the member.

Please provide a written response on the District's intent to correct the above finding by June 10, 2014.

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 Thorsen  
Auditor

bh  
Enclosures

## MEMORANDUM

FROM: Dottie Thorsen, Auditor

TO: Fay Kopp, Deputy Executive Director-Chief Retirement Officer  
Shelly Schumacher, Retirement Program Manager

DATE: May 13, 2014

SUBJECT: TFFR File Maintenance Audit  
Third Quarter 2013/14  
January, February, and March

**Conclusion: One exception noted – birth dates were posted incorrectly on two accounts**

These are the audit procedures for the quarterly audit.

- 1) I ran and reviewed the table reports for fifteen RIO staff members.
- 2) I reviewed all of the transactions on the Data Processing Coordinator's table report.
- 3) I compared the information on seven member action forms with the information posted on CPAS. There were errors in transferring information from the Member Action Forms to CPAS (2 birth dates were transferred incorrectly to CPAS).

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE  
 AUDIT SERVICES DIVISION  
 BUDGETED HOURS FOR THE FISCAL YEAR JULY 1, 2013 TO JUNE 30, 2014

Progress as of March 31, 2014

		2013-14 BUDGET HOURS (2 FTE'S)	2013-14 BUDGET HOURS (1 FTE'S)	YTD HOURS 7/1/2013 - 6/30/2014	1st quart. hours 7/1/2013 - 9/30/2013	2nd quart. hours 10/1/2013 - 12/31/2013	3rd quart hours 1/1/14 3/31/14	4th quart. hours 4/1/14 - 6/30/2014
<b>1. Audit</b>								
School District Audits		2,680	1,288	784.25	247.50	274.00	262.75	
Follow-up on "not-in-compliance" previous audits		276	160	48.50	0.00	22.00	26.50	
TFFR File Maintenance		48	48	36.50	14.00	13.25	9.25	
Benefit Payments-deaths, purchase of service, and refunds review		32	32	23.75	23.75	0	0	
Executive Limitations		20	0	0	0	0	0	
Policy & Procedure Manual		0	0	0	0	0	0	
Special Projects(Including Policy & Procedure Manual)		80	40	0	0	0	0	
<b>Total Audit Hours</b>	76%	3,136	1,568	893	285	309	298.50	
<b>2. Administrative (meetings &amp; prep, CEU's, breaks, etc.,)</b>	9%	384	192	399	207	99	92.50	
<b>3. Annual/Sick Leave, Holidays</b>	15%	640	320	357	116	120	121	
<b>Total Budget Hours</b>	100%	4,160	2,080	1,649	608	528	512	

Note: Audit Supervisor position vacant as of 7/15/2013

## MEMORANDUM

**TO:** State Investment Board (“SIB”) Audit Committee

**FROM:** Fay Kopp, Deputy Executive Director/Chief Retirement Officer  
Dave Hunter, Executive Director/Chief Investment Officer

**DATE:** May 16, 2014

**SUBJECT:** 2014-15 Audit Services Work Plan and Hours Budget

Typically, the Audit Committee reviews and approves an annual Audit Services Work Plan and Hours Budget at its May meeting. Given our stated desire to expand the audit procedures, however, we propose to delay the final approval of the full year annual work program until the new Supervisor of Audit Services position is filled later in 2014. The number and types of audits completed will be greatly impacted by the new investment and governance related audit initiatives, audit program risk assessment and review, and GASB implementation and audit coordination efforts. Much of this will be affected by the Audit Unit’s staffing level during the year, and how soon we are able to hire a new Supervisor of Audit Services. Flexibility will be needed as we re-evaluate and transition the audit program in the next year. Following is a brief discussion of the key priorities.

### **1) New investment and governance related audit initiatives**

In considering the future audit needs of the growing SIB investment program, we believe expanded audit initiatives will be well received. Assets under management by the SIB continue to increase, primarily due to the Legacy Fund, and we believe it is appropriate to increase audit coverage in the investment program to enhance compliance, governance and performance monitoring, while maintaining transparency for SIB clients. Examples include reconfirming adherence to asset rebalancing guidelines and reconciliation of investment manager, custodian, and RIO asset valuation reporting; reconfirming reasonable due diligence was performed in hiring of new investment managers; reviewing third party documentation for each SIB client to support reasonableness of investment services returns net of fees and expenses, standard deviation, and risk adjusted performance. Expanded review procedures should also be conducted related to budgeting, executive limitations, and other board and staff policies and procedures. (See Agenda #6, Expanded Responsibilities for Supervisor of Audit Services.)

## **2) Audit program risk assessment and program evaluation**

RIO Management and SIB Audit Committee agree that it is time to reevaluate RIO's audit program and conduct a comprehensive risk assessment. Once a new Supervisor of Audit Services is hired, the individual will be responsible for these duties, and can develop enhanced audit policies and procedures for the TFFR pension program, SIB investment program, and SIB governance of the RIO agency.

## **3) Implementation of GASB 67 and 68 standards for pension plans and participating employers**

Currently, the majority of the audit work plan is focused on TFFR employer compliance audits as that has been deemed to be a high risk area for the TFFR plan. With the new GASB 67 and 68 standards becoming effective in 2014 and 2015, we expect there to be an impact on our current audit program of employer compliance reviews. While details have not yet been determined, we understand RIO's external auditor (CLA) may be required to conduct onsite employer audits in order to audit the census data used in the actuarial valuation. We will need to coordinate this so RIO audit staff and our external auditor are not duplicating efforts, as well as to minimize the audit burden on employers/school districts. We will need to make sure we are covering all aspects of GASB 68 requirements efficiently and comprehensively. More details will emerge over the next year as more guidance comes from GASB and AICPA, as well as additional discussions with the State Auditor's Office, plan external auditors (CLA), staff auditors (RIO), and employer/school district auditors.

## **Conclusion**

After discussion with the Audit Committee Chair, we are postponing presentation of the proposed 2014-15 annual work plan until the September 2014 meeting. At that time we should have a much better idea of both the staffing level and work efforts required for the year. In the meantime, our current auditor, Dottie Thorsen, will continue diligently working on school district compliance audits, not in compliance follow up reviews, file maintenance and benefit payments audits as we have in the past.

## SIB AUDIT COMMITTEE MEETING SCHEDULE JULY 2014 - JUNE 2015

JULY 2014	AUGUST 2014	SEPTEMBER 26, 2014	OCTOBER 2014	NOVEMBER 21, 2014	DECEMBER 2014
<p>SIB Mtg. – 7/25/14</p> <ul style="list-style-type: none"> <li>• SIB appoints Audit Committee</li> </ul>	<p>SIB Mtg. – 8/22/14</p>	<p>Audit Committee Meeting 1pm - Peace Garden Room</p> <ul style="list-style-type: none"> <li>• Election of Chair and Vice Chair</li> <li>• Audit Committee Charter review</li> <li>• Audit Committee update memo to SIB</li> <li>• Qtrly. Audit Activities Report</li> </ul> <p>SIB Mtg. – 9/26/14</p>	<p>SIB Mtg. – 10/24/14</p>	<p>Audit Committee Meeting 1 pm -Peace Garden Room</p> <ul style="list-style-type: none"> <li>• Presentation of FY2014 financial audit report by external auditors</li> <li>• Session with external auditors</li> <li>• Qtrly. Audit Activities Report</li> </ul> <p>SIB Mtg. – 11/21/14</p>	<p>No meetings</p>
JANUARY 2015	FEBRUARY 27, 2015	MARCH 2015	APRIL 2015	MAY 22, 2015	JUNE 2015
<p>SIB Mtg. - 1/23/15</p>	<p>Audit Committee Meeting 1 pm - WSI</p> <ul style="list-style-type: none"> <li>• Session with Audit Services Staff</li> <li>• Session with RIO Management</li> <li>• Qtrly. Audit Activities Report</li> </ul> <p>SIB Mtg. - 2/27/15</p>	<p>SIB Mtg. - 3/27/15</p>	<p>SIB Mtg. - 4/24/15</p>	<p>Audit Committee Meeting 1 pm - WSI</p> <ul style="list-style-type: none"> <li>• Entrance conference for FY 2015 audit with external auditors</li> <li>• 2015-16 audit work plan</li> <li>• 2015-16 meeting schedule</li> <li>• Qtrly. Audit Activities Report</li> </ul> <p>SIB Mtg. - 5/22/15</p>	<p>SIB Mtg. - 6/26/15</p>