

# **SIB AUDIT COMMITTEE MEETING**

**October 24, 2014, 1:00 p.m.  
Peace Garden Room at the State Capitol**

## **AGENDA**

1. Call to Order and Approval of Agenda – Chair (committee action) (5 minutes)
2. Approval of May 23, 2014 Minutes – Chair (committee action) (5 minutes)
3. Introduction of new Audit Committee member and Audit Supervisor – David Hunter (information) (10 minutes)
4. Election of Chair, Vice Chair, and Liaison – Chair (committee action) (10 minutes)
5. 2013-14 Audit Activities Report – Dottie Thorsen (committee action) (25 minutes)
  - School district compliance audit reports
  - Benefits payments audit report
  - File maintenance audit report
  - 2013-14 year end reports
  - Executive limitations review
6. 2013-14 Audit Committee Report to SIB – Chair, David Hunter (committee action) (15 minutes)
7. 2014-15 Audit Progress Report – Dottie Thorsen (information) (10 minutes)
8. GASB 67 and 68 update – Fay Kopp (information) (15 minutes)
9. Audit Planning and Priorities – Chair (information) (30 minutes)
10. Other - Next SIB Audit Committee meeting – November 21, 2014 – 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 23, 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:** Connie Flanagan, Fiscal & Invt Op Mgr  
Bonnie Heit, Assistant to the Audit Committee  
David Hunter, Executive Director/CIO  
Fay Kopp, Deputy Executive Director/CRO  
Shelly Schumacher, Retirement Program Manager  
Dottie Thorsen, Internal Auditor

**OTHERS:** Jason Ostroski, CliftonLarsonAllen

**CALL TO ORDER:**

Ms. Dorwart called the State Investment Board (SIB) Audit Committee meeting to order at 1:00 p.m., on Friday, May 23, 2014, at the State Capitol, Peace Garden Room, Bismarck, ND.

A quorum was present for the purpose of conducting business.

**AGENDA:**

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO APPROVE THE AGENDA FOR THE MAY 23, 2014, MEETING AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

**MINUTES:**

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO APPROVE THE FEBRUARY 28, 2014, MINUTES AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

**AUDIT SCOPE:**

Mr. Ostroski reviewed the engagement scope for the audit of the Retirement and Investment Office's (RIO) financial statements as of June 30, 2014. The critical areas CliftonLarsonAllen would be focusing on would be investments, contributions, benefit payments, and actuarial data. The final audit report is scheduled to be completed September/October 2014.

Mr. Ostroski also reviewed GASB Statement 67 financial reporting for pension plans which goes into effect fiscal year end June 30, 2014, Statement 68 accounting and financial reporting for pensions which goes into effect fiscal year end June 30, 2015, and Statement 71 which provides additional transition guidance.

**GASB 67/68 IMPLEMENTATION:**

Ms. Kopp updated the Audit Committee on RIO's plans for implementation of the new pension reporting standards, GASB Statements No. 67 and No. 68. RIO staff in conjunction with the Public Employees Retirement System (PERS) and State Auditor's Office have developed a plan which includes the following: educate stakeholders and participating employers; develop the necessary information for RIO/Teachers' Fund for Retirement (TFFR) financial statements, and the information which will be sent to participating employers for inclusion in employer financial statements; and integrate this effort into the ongoing operations of the plan going forward. Ms. Kopp will continue to keep the Audit Committee apprised of developments.

**EXECUTIVE LIMITATIONS AUDIT:**

Mr. Hunter stated the Executive Limitation's review procedures will be compiled on an interim basis during mid-2014 with audit procedures for the period ending December 31, 2014 targeted for completion during early-2015. Mr. Hunter would like to survey the State Investment Board (SIB) clients six months into his appointment as Executive Director/CIO to receive feedback on how RIO as a whole is functioning as far as meeting client's needs and expectations. The information will be compiled and shared with the Audit Committee.

**AUDIT SUPERVISOR:**

Mr. Hunter updated the Audit Committee on the status of filling the Audit Supervisor position of RIO. The position has been vacant since July 13, 2013, and the position has been posted three times on the state HRMS website and twice in the state's four major newspapers. Within that time period, two qualified applicants were determined by HRMS. One applicant withdrew their application and staff conducted a phone interview with the second applicant and determined the candidate did not possess the depth of audit experience needed for the position.

Mr. Hunter, Ms. Dorwart, and Ms. Kopp suggested that it may be in the best interest of RIO, SIB, and its clients to reconsider the duties and responsibilities of the position and possibly upgrade the position to an Auditor IV (Grade N) instead of the prior Auditor III (Grade L). This reclassification would be justified by the growth in client assets under management by the SIB which would require a higher level of responsibility and work.

Mr. Hunter requested approval from the Audit Committee to work with HRMS to possibly reclassify the Audit Supervisor position and repost the position and work towards filling the position the third quarter of 2014.

**IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. SANDAL AND CARRIED BY A VOICE VOTE TO ACCEPT STAFF RECOMMENDATION TO WORK WITH HRMS SERVICES TO RECLASSIFY THE AUDIT SUPERVISOR POSITION.**

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

**NAYS: NONE**

**MOTION CARRIED**

**AUDIT ACTIVITIES REPORT:**

Ms. Thorsen reviewed internal audit activities from January 1 - March 31, 2014, period.

To date, 20 audits have been completed, two audits and two not in compliance reviews are in progress, and six notifications are ready to go. There are 41 districts left to audit in the current cycle.

Ms. Thorsen also completed the File Maintenance Audit. One exception was noted.

The Audit Committee also reviewed budgeted hours for the period ending March 31, 2014.

The Audit Committee thanked Ms. Thorsen for her willingness to work with them through the transition while striving towards meeting her goals established in the 2013-14 work plan.

**IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. MERTZ AND CARRIED ON A VOICE VOTE TO ACCEPT THE INTERNAL AUDIT ACTIVITIES REPORT FOR THE PERIOD OF JANUARY 1 - MARCH 31, 2014.**

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

**NAYS: NONE**

**MOTION CARRIED**

**WORK PLAN:**

The Audit Committee work plan for 2014-15 was tabled until the Audit Supervisor position is filled in order to give that individual an opportunity to determine the areas that should be included in the audit plan.

**MEETING SCHEDULE:**

The Audit Committee reviewed a 2014-15 meeting schedule which reflected four regular meetings per year.

**IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. GESSNER TO ACCEPT THE 2014-15 AUDIT COMMITTEE MEETING SCHEDULE.**

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

**NAYS: NONE**

**MOTION CARRIED**

**OTHER:**

The next Audit Committee meeting is scheduled for September 26, 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 2:38 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:** STATE INVESTMENT BOARD AUDIT COMMITTEE  
**FROM:** DAVID HUNTER- EXECUTIVE DIRECTOR  
**DATE:** OCTOBER 24, 2014  
**RE:** INTRODUCTION OF NEW COMMITTEE MEMBER AND RIO AUDIT PERSONNEL

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As directed by SIB Policy B-6, Governance Process/Standing Committees, the Audit Committee shall consist of five members selected by the SIB. Three members of the Audit Committee will represent the three groups on the SIB (TFFR board, PERS board, and the elected and appointed officials). The other two members will be selected from outside of the SIB and will be auditors with at least a Certified Public Accountant (CPA) or Certified Internal Auditor (CIA) designation.

The SIB previously approved the following four Board representatives for the upcoming year (each of which also served during the past year):

**Cindy Ternes** (designee for the Director of Workforce Safety & Insurance) representing elected and appointed officials  
**Mike Sandal**, representing PERS  
**Michael Gessner**, representing TFFR  
**Rebecca Dorwart**, CPA, CIA

**Update:**

Lonny Mertz recommended Karol Riedman to assume his place on the Committee in the upcoming year. During the past two months, the Executive Directors of RIO and TFFR met with Karol Riedman and reviewed her outstanding qualifications and stated desire to join the SIB Audit Committee. Based on the above, the SIB approved Ms. Riedman as an SIB Audit Committee member for the period of July 1, 2014 - June 30, 2015, thereby replacing Lonny Mertz. A brief biography of Karol Riedman is summarized below along with a brief professional biography of Terra Miller-Bowley, who recently joined RIO as our new Supervisor of Audit Services.

**Karol K Riedman**, CPA, CIA, CGMA

As of August 11, 2014, Karol is the Chief Audit Executive for the Office of Internal Audit of the North Dakota Department of Health. Karol is responsible for the entire internal audit function, risk assessment and fraud prevention programs for this state government agency. She reports directly to the State Health Council Audit Committee. Prior to this current assignment, Karol served as a CPA and consultant to the North Dakota Department of Health and was President and CEO of her own private CPA firm, KKR Accounting PC in Bismarck. During the last 30 years, Karol has also served as a CPA for BNC National Bank in Bismarck, Director of Finance & Personnel for the Oregon Bach Festival in Eugene, Oregon, Audit Supervisor for Eide Bailly in Bismarck, and Senior Accountant for McGladrey & Pullen in Iowa City. She also serves on the Board of Directors for the Gateway to Science Center in Bismarck.

**Terra Miller-Bowley**, AIC, CPCU

Terra Miller-Bowley joined the North Dakota Retirement and Investment Office on October 13, 2014 as the Supervisor of Audit Services. Terra received a Bachelor of Arts in Computer Science from the University of Minnesota, Morris and a Master of Business Administration from Central Michigan University. Terra has spent a majority of her career in the insurance industry specializing in catastrophe related losses. Terra was most recently employed with Liberty Mutual Insurance. Terra was responsible for planning and executing field audits ensuring compliance with prevailing standards, contract provisions, published procedures, and government regulations. Terra holds several insurance industry professional designations (AIC and CPCU) along with numerous professional licenses.

**RETIREMENT AND INVESTMENT OFFICE  
AUDIT SERVICES UNIT  
AUDIT ACTIVITIES REPORT  
FOR THE YEAR ENDED JUNE 30, 2014**

The audit objective of the 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**

- **Office Administration – Executive Limitations**

We annually review executive performance of the Executive Director/Chief Investment Officer to determine compliance with the SIB's Executive Limitations policy. The Audit Committee agreed to forego the audit by the Audit Services Unit in 2013/14 due to the following reasons:

1. The audit work is normally performed during the third quarter timeframe (Jan/Feb. 2014) for the calendar year of 2013. The Executive Director started employment with RIO in December of 2013. This did not provide sufficient information for the review.
2. The Committee wanted the new Supervisor of Audit Services to review the process and procedures to determine if the audit is evaluating the appropriate controls for the governance policy and procedures.
3. The Executive Director will work with internal RIO staff to compile documentation to support a review of the Executive Limitations adherence in advance of a new Supervisor of Audit Services joining the RIO team on October 13, 2014.

### **Retirement Program**

- **School District Reporting**

We examined 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 was issued after each audit examination was completed.

The 2013/14 Work Plan included a goal of 52 district audits and 7 not in compliance reviews. However, due to the Audit Supervisor's retirement on July 12, 2013, a tentative goal of 20 to 24 District audits and 4 not in compliance audits was set for the one auditor. As of June 30, 2014, 22 District audits were completed (21 in compliance and 1 generally in compliance). We also reviewed information for three Districts found not in compliance in past years. These Districts

had corrected the errors and no further review was required. At the end of the year, there were three District audits and one not in compliance review in progress.

Reporting problems indentified through the audit process were as follows:

- Eligible salary not reported – athletic supervision, coaching, in-staff subbing, summer salary, and test proctoring
- Ineligible salary reported – busing, car maintenance, conversion of a fringe benefit on an individual basis, and library aide
- Reported salary in the wrong fiscal year
- Reported contract salary incorrectly due to a model assessment calculation
- Reported salary without a written agreement
- Missing written agreements for summer salary
- Reported service hours incorrectly

This is an area that required 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. A copy of the report of Districts’ audits completed in 2013/14 was forwarded to the external auditor.

**Statistics for the fiscal year ending June 30, 2014**

Total districts at beginning of third cycle (Jan. 2010)	231
Less: County and State institutions not included	- 19
Districts with 10 or fewer members	- 29
Consolidations and closures	<u>- 11</u>
Employers to be audited in the third cycle	172
Completed audits in the third cycle	<u>129</u>
Remaining audits	43
Adjustment due to a not in compliance review	<u>1</u>
	44

• **TFFR File Maintenance**

Journals were generated daily and monthly indicating any file maintenance changes made. We quarterly tested changes made to TFFR member account data by RIO employees. For the four quarters, two exceptions were noted in the third quarter. Birthdates were not transferred correctly from the member action forms to the members’ accounts. Retirement Services corrected the two accounts. We recommended due care when entering information into the system. Copies of the four reports were forwarded to the external auditor.

• **2013/14 Benefit Audit – a review of Deaths, Long Outstanding Checks, and Long Term Annuitants, Purchase of Service, and Refunds**

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

No exceptions were noted. A copy of the report was forwarded to the external auditor.

## **FINANCIAL AUDIT RESULTS**

The annual financial audit of the Retirement and Investment Office for the year ended June 30, 2014, was conducted by independent auditors from the accounting firm CliftonLarsonAllen. The firm will present the audit results to the Audit Committee at the November 2014 meeting.

### **SUMMARY**

At the direction of the Audit Committee, audit effort was directed to activities that were the greatest concern to the Committee, RIO Management, and the independent auditor. Based on the results of our audits, and the audit performed by the independent auditor, 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 attribute this to a knowledgeable staff, good communications and feedback between management and staff; thorough on-the-job training for staff; and comprehensive job instructions.

### **LOOKING AHEAD**

The Audit Services Division 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. A focus of the audit function has been on external entities reporting to RIO (District audits for TFFR). We will continue to conduct these audits. However, due to new GASB 67 and 68 pension reporting standards, we will work with the independent auditor to re-evaluate the District compliance audits and reporting process.

The Audit Committee, RIO Management, and the Supervisor of Audit Services will also commence a review of the audit charter, governance manual, and certain investment related policies and procedures for consistency and completeness.



**North Dakota Retirment 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								35	29	142	90	52	43

Assigned	Total Audit Days	Average Audit Days	Audits Completed	Total Hours	Average hrs	Act aud days
20-24 DT	1,148	52.2	22	943	43	5.4

**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	6/23/2014	Done	54	34	133	73	60	In compliance 38

North Dakota Retirement and Investment Office  
 Audit Services

**SCHOOL DISTRICT COMPLIANCE AUDITS**

July 1, 2013 through June 30, 2014

				FISCAL	MEMBERS	REPORT	MEMBER/ EMPLOYER	MEMBER'S	MEMBER		
	SCHOOL DISTRICT			YEARS	IN	DATE	CONTRIB'S	SALARIES	SERVICE		
					DISTRICT		DR(CR)	ADJUSTED	CREDIT	STATUS	
									ADJUSTED		
✓	School audits completed									21	
										1	
										0	
										<u>0</u>	
										22	
1	✓	DT	East Central Ctr Except. Child	6/30/13, 12	15	6/23/2014	0.00	0	0	In compliance There were no errors noted.	
2	✓	DT	Elgin/New Leipzig	6/30/13, 12	21	5/21/2014	0.00	0	0	In compliance Reported service hours incorrectly for three part-time out-of-district teachers.	
3	✓	DT	GST Educational Services	6/30/12, 11	32	1/7/2014	(56.31)	2	1	In compliance The District did not issue written agreements to all summer teachers; summer salary reported in the wrong fiscal year; and service hours reported incorrectly.	
4	✓	DT	Hebron	6/30/12, 11	28	11/14/2013	(690.00)	1	0	In compliance Reported ineligible conversion of health insurance to salary-individual basis; reported part-time teacher salary without a written agreement.	
5	✓	DT	Jamestown	6/30/12, 11	225	7/19/2013	0.00	0	1	In compliance The District reported service hours incorrectly.	
6	✓	DT	Maddock	6/30/12, 11	21	3/12/2014	0.00	0	0	In compliance Did not issue written agreements for summer salary.	
7	✓	DT	Manvel Elementary	6/30/12, 11	22	2/27/2014	0.00	0	4	In compliance Reported salary/service hours incorrectly for 1 retired member; and reported service hours incorrectly for part-time teachers.	
8	✓	DT	Medina	6/30/12, 11	23	4/2/2014	(35.63)	2	0	In compliance The District reported salary in the wrong fiscal year; and did not report eligible in-staff subbing and test proctoring salary.	
9	✓	DT	Midkota	6/30/12, 11	23	1/16/2014	(850.00)	1	2	In compliance Reported an ineligible benefit as salary; service hours reported incorrectly for part-time members.	

North Dakota Retirement and Investment Office  
Audit Services

**SCHOOL DISTRICT COMPLIANCE AUDITS**

July 1, 2013 through June 30, 2014

	SCHOOL DISTRICT	FISCAL YEARS	MEMBERS IN DISTRICT	REPORT DATE	MEMBER/ EMPLOYER CONTRIB'S DR(CR)	MEMBER'S SALARIES ADJUSTED	MEMBER SERVICE CREDIT ADJUSTED	STATUS
✓	School audits completed				In compliance		21	
					Generally in compliance		1	
					Not in compliance		0	
							<u>22</u>	
10	✓ DT Midway	6/30/12, 11	29	6/14/2013	(920.06)	2	0	In compliance Reported ineligible busing; and did not report eligible subbing (isolated occurrence).
11	✓ DT Minto	6/30/12, 11	24	4/7/2014	0.00	0	0	In compliance No exceptions were noted.
12	✓ DT Nedrose	6/30/12, 11	19	12/9/2013	0.00	0	0	In compliance No exceptions noted.
13	✓ DT Pingree-Buchanan	6/30/13, 12	20	4/23/2014	0.00	0	0	In compliance Reported salary for coaching for an out-of-district member without a written agreement; and reported service hours incorrectly for two part-time summer teachers.
14	✓ DT Sheyenne Valley Special Ed.	6/30/12, 11	27	7/18/2013	173.40	1	0	In compliance Did not issue written agreements for summer salary; and did not report summer salary (isolated occurrence).
15	✓ DT Surrey	6/30/12, 11	40	8/5/2013	482.03	4	1	In compliance Did not issue written agreements for summer salary; reported service hours incorrectly; and did not report student supervision at athletic events.
16	✓ DT TGU	6/30/12, 11	43	8/22/2013	0.00	0	0	In compliance No exceptions noted.
17	✓ DT Turtle Lake-Mercer- Great Western Network	6/30/12, 11	58	12/5/2013	284.10	2	1	Generally in compliance District did not issue written agreements for summer salary; reported incorrect contract salary; reported summer salary in the wrong fiscal year; reported ineligible car maintenance salary; reported service hours incorrectly for a retired member; and GWN did not issue written agreements for two members.

North Dakota Retirement and Investment Office  
Audit Services

**SCHOOL DISTRICT COMPLIANCE AUDITS**

July 1, 2013 through June 30, 2014

	SCHOOL DISTRICT	FISCAL YEARS	MEMBERS IN DISTRICT	REPORT DATE	MEMBER/ EMPLOYER CONTRIB'S DR(CR)	MEMBER'S SALARIES ADJUSTED	MEMBER SERVICE CREDIT ADJUSTED	STATUS
✓	School audits completed				In compliance		21	
					Generally in compliance		1	
					Not in compliance		0	
							<u>22</u>	
18	✓ DT Westhope	6/30/12, 11	22	10/14/2013	(1,480.08)	1	2	In compliance Reported ineligible library aide salary; and reported service hours incorrectly for two retired teachers.
19	✓ DT West River Student Services	6/30/13, 12	15	5/9/2014	0.00	0	0	In compliance Did not have a written agreement for summer salary; and reported service hours incorrectly for one member.
20	✓ DT Wishek	6/30/12, 11	21	9/23/2013	4,912.64	1	1	In compliance Did not report eligible coaching and subbing; reported ineligible busing; contract salary reported incorrectly due to model 3 assessment; and reported service hours incorrectly.
21	✓ DT Wyndemere	6/30/12, 11	29	9/30/2013	0.00	0	0	In compliance The District did not have written agreements for summer salary.
22	✓ DT Zeeland	6/30/13, 12	12	5/28/2014	0.00	0	0	In compliance No errors noted.
<b>Totals</b>			<u>769</u>		<u>1,820.09</u>	<u>17</u>	<u>13</u>	
<b>Not in compliance reviews</b>								
1	✓ DT Dunseith	6/30/2013	54	6/23/2014	0.00	0	0	Salaries OK-no further review.
2	✓ DT Kindred	6/30/2013	54	2/11/2014	0.00	0	0	Salaries OK-no further review
3	✓ DT Powers Lake	6/30/2013	19	1/30/2014	0.00	0	0	Salaries OK-no further review
			<u>127</u>		<u>0.00</u>	<u>0</u>	<u>0</u>	

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE  
 AUDIT SERVICES  
 THIRD AUDIT CYCLE  
 SCHOOL DISTRICT COMPLIANCE AUDITS**

Total Members served in the third audit cycle	10,138
Total Audits completed in the third audit cycle	129
Audits in progress	3
Remaining Districts to be audited	41
Total Audits in the third cycle	<u>173</u>

In compliance	107	As of 6/30/2014
Generally in compliance	11	
Not in compliance	<u>11</u>	
	129	

10 members or less	29 (Not audited)
State agencies/other	19 (Not audited)
Consolidations/closures	11
More than 10 members	<u>172 (audited)</u>
Total District	<u>231</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		
		<u>18</u>	<u>697 Teachers</u>		

**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		

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE  
AUDIT SERVICES  
THIRD AUDIT CYCLE  
SCHOOL DISTRICT COMPLIANCE AUDITS**

United	4/1/2011	49	Generally in compliance
Velva	5/17/2011	49	Not in compliance
Washburn	5/9/2011	27	In compliance
		<b>14</b>	<b>1,123</b>

**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	25
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	30
Finley-Sharon	5/21/2012	24	In compliance		1 NIC
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		
		<b>30</b>	<b>1,425</b>		

\*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

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE  
 AUDIT SERVICES  
 THIRD AUDIT CYCLE  
 SCHOOL DISTRICT COMPLIANCE AUDITS**

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
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 2014/15
Solen-Cannonball	6/27/2013	Salaries OK-no further review
Velva	5/1/2013	Salaries OK-no further review

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45	2,736
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**FISCAL YEAR 2013/ 2014 (full year)**

East Central Except. Child	6/23/2014	15	In compliance		
Elgin/New Leipzig	5/21/2014	21	In compliance		
GST Educational Services	1/7/2014	32	In compliance		
Hebron	11/14/2013	28	In compliance		
Jamestown	7/19/2013	225	In compliance	I/C	21
Maddock	3/12/2014	21	In compliance	GIC	1
Manvel Elementary	2/27/2014	22	In compliance	NIC	0
Medina	4/2/2014	23	In compliance	Audits	22
Midkota	1/16/2014	23	In compliance		
Midway	2/19/2014	29	In compliance		
Minto	4/7/2014	24	In compliance		
Nedrose	12/9/2013	19	In compliance		
Pingree-Buchanan	4/23/2014	20	In compliance		

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE  
 AUDIT SERVICES  
 THIRD AUDIT CYCLE  
 SCHOOL DISTRICT COMPLIANCE AUDITS**

Sheyenne Valley Spec. Ed.	7/18/2013	27	In compliance
Surrey	8/5/2013	40	In compliance
TGU	8/22/2013	43	In compliance
Turtle Lake-Mercer/ -Great Western Network	12/5/2013	58	Generally in compliance
Westhope	10/14/2013	22	In compliance
West River Student Services	5/9/2014	15	Incompliance
Wishek	9/23/2013	21	In compliance
Wyndemere	9/30/2013	29	In compliance
Zeeland	5/28/2014	12	In compliance
		754	

**Not in compliance reviews:**

Dunseith	6/20/2014	54	Salaries OK-no further review
Kindred	2/11/2014	54	Salaries OK-no further review
Power's Lake	1/30/2014	19	Salaries OK-no further review

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22	754
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# 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](http://www.nd.gov/rio)



June 23, 2014

Patrick Brenden  
Superintendent  
Dunseith School District  
PO Box 789  
Dunseith ND 58329-0789

**RE: TFFR Compliance Audit – Follow-Up Review**

Dear Mr. Brenden:

During fiscal years 2009/10 through 2011/12, the North Dakota Retirement and Investment Office audited the Dunseith 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 April 30, 2013. 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 six members reported to TFFR in fiscal year 2012/13. 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 April 2013 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, Alva Gladue, and Carol Hunt 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 black ink that reads 'Fay Kopp'. The signature is written in a cursive style.

Fay Kopp  
Deputy Executive Director/  
Chief Retirement Officer

A handwritten signature in black ink that reads 'Dottie Thorsen'. The signature is written in a cursive style.

Dottie Thorsen  
Auditor

bh  
Enclosure

c: Alva Gladue

**REPORT ON COMPLIANCE AUDIT  
FOR REPORTING AND PAYMENTS  
TO THE TEACHERS' FUND FOR RETIREMENT  
ZEELAND SCHOOL DISTRICT  
MAY 28, 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.

**FINDING**

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 Zeeland School District were in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). There were no errors 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/riol/TFFR/Publications](http://www.nd.gov/riol/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  
ELGIN/NEW LEIPZIG SCHOOL DISTRICT  
MAY 21, 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 Elgin/New Leipzig 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 reported service hours incorrectly for three part-time members.

**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 reported service hours incorrectly for three part-time members who coached for the District. The three members were out-of-district teachers with written agreements. 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 June 24, 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

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

FROM: Dottie Thorsen, Auditor

DATE: August 15, 2014

SUBJECT: Benefit Payments Audit

I reviewed the policy and procedures for the deaths, long-outstanding checks, long-term annuitants, purchases, and refunds. The external auditors, Clifton/Larson/Allen, did not request any assistance from the Audit Division for the RIO 2013/14 external audit. Therefore, I did not complete the following procedures for any annuitant's accounts: recalculate the benefit, send confirmation letter, review their disbursement information, or review the payment history for the audit year.

**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 2013/14 death list
- Reviewed procedures for obtaining death certificates – a change was made to #6
- 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. Three accounts were still open as of August 2014. There has been no response from correspondence mailed to the family
- Reviewed deaths listed on report dated 6/26/2014 – death certificate on file, no overpayment of benefits, verified reimbursement of overpaid benefits, and reviewed survivor set-up, continuing annuitant set-up or refund. Seven accounts were still open as of August 2014. There has been no response from correspondence mailed to the family
- 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 for fiscal year 2013/14
- Reviewed list of outstanding checks as of 7/1/2014 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.

**Long-term Annuitants** – To review benefit payments made over a long period of time to determine the propriety of the payments.

- IT ran the over 90 list of annuitants for me on 7/1/2014 (I was out-of-the office)

- Selected a sample of 5 annuitants that are 100 years of age or older
- Research their image and microfiche files – look for a history of salary and service hours, retirement documents, retirement calculations, updated deposit authorization forms, updated tax forms, powers of attorney, etc
- On a quarterly basis, Retirement Services monitors the long term-annuitants living out-of-the State. Their names are compared to a website that lists death notices from newspapers – Obits USA.

**Purchases** – I randomly selected four 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 they 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 four refunds from the May and June 2014 monthly refund reports. I received copies of these reports from the IT Division for another quarterly audit. I did not select refunds due to deaths or partial lump sum payments due to retirement.

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

MEMORANDUM

FROM: Dottie Thorsen, Auditor

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

DATE: August 15, 2014

SUBJECT: TFFR File Maintenance Audit  
Fourth Quarter (2013/14)  
(April, May, and June)

**Conclusion: No exceptions noted.**

These are the audit procedures for the quarterly audit.

- 1) I ran and reviewed the table reports for all RIO staff members.
- 2) The Data Processing Coordinator began employment at RIO on April 28, 2014. He had no transactions listed on his table report. I did review all of the transactions listed on the IT Supervisor's table report. All transactions were appropriate.
- 3) I reviewed one installment purchase.
- 4) I reviewed one refund-partial lump sum from a retirement.
- 5) I compared the information on five member action forms with the information posted on CPAS. There were a few minor inconsistencies found in transferring information. No exception will be noted because the information is not used for the retirement process.

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



	<b>2013-14</b>	<b>2013-14</b>	YTD				1st quart.	2nd quart.	3rd quart	4th quart.
	BUDGET	BUDGET	HOURS	UNDER/			hours	hours	hours	hours
	HOURS	HOURS	7/1/2013 -	(OVER)			7/1/2013 -	10/1/2013 -	1/1/14	4/1/14 -
	(2 FTE'S)	(1 FTE'S)	6/30/2014	BUDGET			9/30/2013	12/31/2013	3/31/14	6/30/2014
<b>1. Audit</b>										
School District Audits	2,680	1,337	1,051	286			248	274	263	267
Follow-up on "not-in-compliance" previous audits	276	160	92	68			0	22	27	44
TFFR File Maintenance	48	48	51	3			14	13	9	15
Benefit Payments-deaths, purchase of service, and refunds review	32	32	27	5			24	0	0	3
Executive Limitations	20	0	0	0			0	0	0	0
RIO external audit	0	0	1	(1)			0	0	0	1
Special Projects(Including Policy & Procedure Manual)	80	0	0	0			0	0	0	0
<b>Total Audit Hours</b>	76%	3,136	1,577	1,222	355	57%	285	309	299	329
<b>2. Administrative (meetings &amp; prep, CEU's, etc.)</b>	9%	384	192	530	(338)	24%	207	99	93	131
<b>3. Annual/Sick Leave, Holidays</b>	15%	640	320	417	(97)	19%	116	119	121	61
<b>Total Budget Hours</b>	100%	4,160	2,089	2,169			608	528	512	521

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

Total hours for the 2013/14	2,169		
Hours for one FTE equals	2,089		
Supervisor's hours for two weeks in July 2013	80	61 admin	19 lve

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE INTERNAL AUDIT SERVICES  
 BUDGETED SCHOOL DISTRICT AUDITS BY QUARTER FOR 2013-2014  
 FOR FISCAL YEAR ENDING JUNE 2014**

	<u>2013-2014 District Audits</u>			OVER/ (UNDER)
	<u>BUDGET</u>	DT	<u>ACTUAL</u>	<u>BUDGET</u>
1st quarter (July - September)	14	6	6	0
2nd quarter (October - December)	14	6	6	0
3rd quarter (January - March)	12	6	4	(2)
4th quarter (April - June)	12	6	6	0
	<hr/>	<hr/>	<hr/>	<hr/>
Audit Supervisor-position vacant	52	24	22	(2)
2013/14 Audit Plan				
52	Employer audits			
7	Follow-up NIC Employer audits			
1	Executive Limitations			
4	TFFR File Maintenance audits			
1	Benefit payment-review of deaths, long-outstanding checks, purchases and refunds			
65				
Dottie Thorsen - audit goal for fiscal year 2013/14				
				Completed 2013/14
24	Employer audits (20-24)			22
4	Follow-up NIC Employer audits (Dunseith, Kindred, Power's Lake, and Williston)			3 (Dunseith, Kindred, Power's Lake)
4	TFFR File Maintenance audits			4
1	Benefit payment-review of deaths, long-outstanding checks, purchases and refunds			1
33				<hr/> 30

<b>GOVERNANCE POLICY MONITORING SUMMARY</b>				
<b>POLICY</b>	<b>METHOD</b>	<b>RESPONSIBILITY</b>	<b>FREQUENCY</b>	<b>BOARD ACTION</b>
<b>ENDS</b>				
Investment Services	External	Investment Consultant	Annual - FYE	N/A
	Internal	Investment Officer	Quarterly	Accept or Follow-Up
Retirement Services	External	Actuary	Annual - FYE	N/A
	Internal	Retirement Officer	Quarterly	Accept or Follow-Up
<b>EXECUTIVE DIRECTOR LIMITATIONS</b>				
Executive Constraint	Internal	Executive Director	Annual - CYE	Accept or Follow-Up
	Internal	Audit Supervisor	Quarterly	Accept or Follow-Up
Staff Relations	Internal	Executive Director	Quarterly	Accept or Follow-Up
	Internal (External)	Audit Supervisor (SIB)	Annual - CYE	Accept or Follow-Up
Public Relations	Internal	Executive Director	Annual - CYE	Accept or Follow-Up
	Internal	Audit Supervisor	Annual - CYE	Accept or Follow-Up
Budgeting	Direct	Board Review	Biennial	Accept or Follow-Up
	External	Governor (State Auditor)	Annual - FYE	N/A
	Internal	Executive Director	Quarterly	Accept or Follow-Up
Financial Condition	External	External Auditor	Annual - FYE	Accept or Follow-Up
	Internal	Executive Director	Quarterly	Accept or Follow-Up
Board Communication	Direct Board Participation	State Investment Board	Annual - CYE	Accept or Follow-Up
Asset Protection	External	External Auditor	Annual - FYE	N/A
	Internal	Executive Director	Annual - CYE	Accept or Follow-Up
Compensation and Benefits	Internal	Executive Director	Annual - CYE	Accept or Follow-Up
	Internal	Audit Supervisor	Annual - CYE	Accept or Follow-Up
Conflict of Interest	Internal	Executive Director	Annual - CYE	Accept or Follow-Up
	Internal	Audit Supervisor	Annual - CYE	Accept or Follow-Up
Code of Conduct	Internal	Executive Director	Annual - CYE	Accept or Follow-Up
	Internal	Audit Supervisor	Annual - CYE	Accept or Follow-Up
Unrelated Business Interests	Internal	Executive Director	Annual - CYE	Accept or Follow-Up
	Internal	Audit Supervisor	Annual - CYE	Accept or Follow-Up

Audit Supervisor = Report to State Investment Board Audit Committee with a Summary Report to the SIB

FYE = Fiscal Year End    CYE = Calendar Year End    N/A = Not Applicable    *Amended September 26, 2014*

## MEMORANDUM

**TO:** STATE INVESTMENT BOARD

**FROM:** REBECCA DORWART, SIB AUDIT COMMITTEE CHAIRPERSON

**DATE:** OCTOBER 24, 2014

**SUBJECT:** AUDIT COMMITTEE ACTIVITIES UPDATE FOR THE FISCAL YEAR  
JULY 1, 2013 TO JUNE 30, 2014

The Audit Committee is a standing committee of the State Investment Board (SIB) authorized under the 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 2013-14 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). The Audit Committee held four regular meetings during the fiscal year ended June 30, 2014.

Activities of the Audit Committee during the past year included:

- ◆ The Committee established the 2013-14 audit work plan and monitored progress on a quarterly basis. Audit activities included:
  - TFFR school district compliance audits – completed 22 regular audits and 3 follow up reviews of not-in-compliance audits.
  - TFFR benefit payments audit – completed annual review of deaths, long-out-standing checks, long-term annuitants, purchases, and refunds.
  - TFFR file maintenance audit – completed 4 quarterly reviews of changes made to member account data.
  - SIB Executive Limitations: The Committee agreed to forego the audit of SIB Executive Limitations in 2013/14 which normally occurs during the 3<sup>rd</sup> quarter timeframe (Jan/Feb. 2014) as there would not be sufficient information to review with the Executive Director starting employment with RIO in December 2013.
- ◆ The Committee reviewed the quarterly progress of audit services staff on its fiscal work plan of audit activities and functions.

- ◆ The Committee received the results of the RIO financial audit for the fiscal year ended June 30, 2013 from independent auditors, CliftonLarsonAllen, LLP. The firm issued an unqualified opinion.
- ◆ The Committee reviewed the RIO financial audit plan for the fiscal year ended June 30, 2014 with CliftonLarsonAllen. Discussion included the scope of the audit to ensure complete coverage of financial information, and education on new GASB statements for pension plan reporting.
- ◆ The Committee received staff updates on GASB 67 and 68 pension reporting requirements, implementation planning, census data audits, and employer training program.
- ◆ The Committee decided to postpone adopting a detailed work plan for the fiscal year ending June 30, 2015 until the new Supervisor of Audit Services was hired.
- ◆ The Committee provided input on job duties and responsibilities for the Supervisor of Audit Services position, and participated in the recruitment and selection process.

Please note that Terra Miller Bowley was hired as the RIO Supervisor of Audit Services and began employment on October 13, 2014.

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.

**North Dakota Retirement and Investment Office**  
**SCHOOL DISTRICT AUDIT PROGRESS AND STATUS REPORT**  
**For the Fiscal Year July 1, 2014 - June 30, 2015**

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
1	DT Grand Forks - fiscal agent for the Red River Valley Ed. Cooperative		6/18/2013	7/22/2013	3/10/2014	9/10/2014	complete	802	34	415	231	184	Generally in compliance 157
2	DT Flasher		2/18/2014	3/17/2014	5/29/2014	9/10/2014	complete	22	27	177	73	104	Generally in compliance 61
3	DT South Heart School		5/28/2014	6/9/2014	6/19/2014	8/6/2014	complete	31	12	58	10	48	Generally in compliance 54
4	DT Lake Region Spec Ed		5/28/2014	6/12/2014	9/16/2014	10/10/2014	complete	29	15	120	96	24	In compliance 27
5	DT Oliver-Mercer Spec Ed		5/28/2014	6/26/2014	9/23/2014		in progress	19	29		89		
6	DT Mohall/Lansford/Sherwood-new B.Mger		4/23/2014	5/27/2014				42	34				
7	DT Nesson		5/28/2014	6/13/2014				25	16				
8	DT Hazleton-Moffitt School- new B. Mger		5/28/2014	6/18/2014	GASB			18	21				
9	DT Glen Ullin		5/28/2014	7/10/2014	GASB			24	43				
10	DT Billings Co. Sch. District		9/16/2014					18					
11	DT Devil's Lake		9/16/2014	10/13/2014				173					
12	DT Edmore		9/16/2014	extension to 10/31				16					
13	DT Mayville-Portland C-G		9/16/2014	10/17/2014				49					
14	DT Wolford		9/16/2014	10/16/2014				12					
15	Dickinson												
16	Emerado												
17	Fargo												
18	Fordville-Lankin												
19	Ft. Totten												
20	James River Multidistrict												
21	Kensal												
22	Kulm												
23	Lewis & Clark School												
24	Litchville-Marion												
25	Maple Valley												
26	Montpelior												
27	Munich												
28	New Public School(Williston)												
29	North Border School District												
30	North Valley Area Careers												
31	Page												
32	Parshall												
33	Selfridge												
34	Sheyenne Valley Area Vocation												
35	Solen-Cannonball												
36	Southeast Region Career and Tech												
37	South Praire Elementary												
38	St John												
39	Starkweather												
40	Warwick												
41	West Fargo												
42	White Shield (Roseglen)												
43	Wilmac Special Education												
44	Wing												
Average								221	22	193	103	90	75

Assigned	Total Audit Days	Average Audit Days	Audits Completed	Total Hours	Average hrs	Act aud days
20-24 DT	90	23	4	75	19	2.3

North Dakota Retirement and Investment Office  
**SCHOOL DISTRICT AUDIT PROGRESS AND STATUS REPORT**  
**For the Fiscal Year July 1, 2014 - June 30, 2015**

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
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**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 Halliday							19					
2	DT McClusky							18					
3	DT Ft. Yates							35					
4	DT Minnewaukan							36					
5	DT Williston-carry over for 2014		1/7/2014	1/29/2014	4/14/2014		In progress	217	22		75		
								65	0	0	0	0	0

Assigned  
 4 DT

# ND Retirement and Investment Office

*Teachers' Fund for Retirement  
State Investment Board*

1930 Burnt Boat Drive  
P.O. Box 710C  
Bismarck, ND 58507-710C  
Telephone 701-328-9885  
Toll Free 800-952-2970  
Fax 701-328-9897  
[www.nd.gov/rio](http://www.nd.gov/rio)



September 10, 2014

Dr Nancy Burke  
Red River Valley Education Cooperative  
PO BOX 6000 or 3000 Cherry St. 58201  
Grand Forks ND 58206-6000

**RE: TFFR Compliance Audit for the Grand Forks District/fiscal agent for the Red River Valley Education Cooperative**

Dear Dr. Burke:

We have completed the audit for the Grand Forks District who is the fiscal agent for the Red River Valley Education Cooperative. The purpose of the audit was to ensure that retirement salaries reported by the District for members of the Teachers' Fund for Retirement (TFFR) were in compliance with the definition of salary as it appears in the NDCC 15-39.1-04(9). Other reporting procedures reviewed during the audit process included calculation of service hours and eligibility for TFFR membership.

There were no errors noted in the reporting of members from the Red River Education Cooperative. TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in TFFR reporting salary requirements. The website address is [www.nd.gov/rio/TFFR/Publications](http://www.nd.gov/rio/TFFR/Publications).

If you have any questions regarding the audit, please contact me at the Administrative Office (1-800-952-2970).

Sincerely,

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

Fay Kopp, CRA  
Deputy Executive Director- Chief Retirement Officer

bh  
c: Business Manager-Edwin Gerhardt

**REPORT ON COMPLIANCE AUDIT  
FOR REPORTING AND PAYMENTS  
TO THE TEACHERS' FUND FOR RETIREMENT  
GRAND FORKS SCHOOL DISTRICT  
SEPTEMBER 10, 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 Grand Forks School District were generally 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 six members.
2. The District did not report eligible coaching and health committee salary for four members.
3. The District reported ineligible announcing salary for a 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.

A handwritten signature in cursive script that reads "Dottie Thorsen".

Dottie Thorsen  
Auditor

bh  
Enclosures

**REPORT ON COMPLIANCE AUDIT  
FOR REPORTING AND PAYMENTS  
TO THE TEACHERS' FUND FOR RETIREMENT  
FLASHER SCHOOL DISTRICT  
SEPTEMBER 10, 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 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. Due to the timing of the audit, fiscal year 2013/14 was also corrected.

**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 Flasher School District were generally 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 game supervision salary.
2. The District reported the ineligible cash option for a fringe benefit for two members.
3. The District did not issue written agreements for summer salary.

**REPORT ON COMPLIANCE AUDIT  
FOR REPORTING AND PAYMENTS  
TO THE TEACHERS' FUND FOR RETIREMENT  
SOUTH HEART SCHOOL DISTRICT  
AUGUST 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 2013/14 reported by the South Heart School District were generally 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 ineligible meal reimbursement salary (conversion of a benefit).
2. There was a software programming error in 2013/14 that affected retirement salaries reported.

**REPORT ON COMPLIANCE AUDIT  
FOR REPORTING AND PAYMENTS  
TO THE TEACHERS' FUND FOR RETIREMENT  
LAKE REGION SPECIAL EDUCATION  
OCTOBER 10, 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.

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 the fiscal years 2011/12 through 2012/13 reported by Lake Region Special Education 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 reported service hours incorrectly for one part-time 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](http://www.nd.gov/rio/TFFR/Publications).

# MEMORANDUM

**TO:** SIB Audit Committee

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

**DATE:** October 17, 2014

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

## **NEW GASB PENSION STANDARDS**

As we have discussed at previous meetings, the Governmental Accounting Standards Board (GASB) issued two new standards which 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.

## **GASB IMPLEMENTATION PLANNING**

RIO employees on the GASB implementation team include Shelly Schumacher, Connie Flanagan, and Fay Kopp. Since the new GASB provisions apply to both NDTFFR and NDPERS, we are working closely with Sparb Collins and Sharon Schiermeister, PERS, and Ron Tolstad, State Auditor's Office (SAO), to develop plans for implementing the new pension reporting standards. The goal of this joint effort is to reduce costs, reduce duplication of effort, and provide consistent reporting for the State and participating employers. Also assisting in this effort are plan actuaries (two different Segal consultants for TFFR and PERS) and plan auditors (Clifton Larson Allen for TFFR and Brady Martz for PERS).

Here is an update of the status of our implementation planning efforts.

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

As you know, TFFR and PERS hired Eric Berman, a governmental audit consultant from Eide Bailly, to conduct employer training on the new GASB requirements. A pilot training session was held on June 26, 2014 for a small working group of about 40 representatives of school districts, cities, counties, state, auditors, and other interested stakeholders. About 10 staff from TFFR and PERS also attended the meeting. A copy of the presentation is enclosed. After the training, we surveyed the working group for feedback to incorporate into future training sessions.

We have scheduled GASB 68 Employer Training for all TFFR and PERS participating employers and auditors which will be jointly sponsored by TFFR, PERS, and the State Auditor's Office. The training session is scheduled for December 11, 2014 at the Bismarck Events Center. A sample employer invitation is attached. Once again, Eric Berman will present the training which will include a presentation describing the new standards, timing of implementation, actuarial/financial information to be provided by the plans, audit issues, and Q & A forum with TFFR, PERS, and State Auditor's Office representatives (Shelly Schumacher, Sharon Schiermeister, and Ron Tolstad). This training session will be recorded, and made available on TFFR and PERS websites.

TFFR 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 to be disclosed in the plan's financial statements, as well as certain information and disclosures that must be sent to employers and disclosed on employer financial statements. This information will 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.

TFFR staff is working closely with plan auditors, CliftonLarsonAllen (CLA) and plan actuary, Segal, on GASB implementation details. We are currently in the process of drafting sample template note disclosures, required supplementary information, schedule of employer allocations, schedule of employer pension amounts, and other information necessary for TFFR financial statements (2014) and employer financial statements (2015). Segal has provided the necessary GASB 67 information as part of

the 2014 valuation report, and plans to deliver GASB 68 information for employers by November 10, 2014.

In addition to auditing RIO's financial statements and reviewing GASB 67 information for our 2014 audit, TFFR's auditor, CliftonLarsonAllen, is also beginning to audit the demographic information received from employers that is included in the TFFR plan's valuation file and used to calculate the plan's net pension liability and pension expense. CLA has selected a sample of seventeen TFFR employers based on guidance from the AICPA. To assist CLA with these audits, Shelly Schumacher has contacted five of these employers to provide payroll information to CLA (sample letter to employers is attached). Once CLA audits the census data from the initial group of five employers, they will continue with the remaining 12 employers. We are hopeful that in the future, RIO's internal audit team will be able to assist CLA coordinate employer census data audits.

### **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 and processes to the annual valuation effort by the actuary, annual audit effort by external auditor, and administrative efforts by RIO staff.

### **Summary**

Details and issues continue to emerge as we work through this GASB implementation process. While GASB has provided guidance for the new pension accounting and financial reporting requirements, and the AICPA has provided recommendations, there are many practical implementation issues that are still being identified and addressed.

The TFFR Board and RIO staff has deemed GASB implementation to be a very high priority. I am confident we have the right team in place to successfully implement the new pension reporting standards in RIO/TFFR financial statements in 2014, and to provide appropriate information and guidance for TFFR employers as they work with their auditors on incorporating required pension information into their financial statements in 2015.

Enclosures

North Dakota Teachers' Fund for Retirement  
North Dakota Public Employees Retirement System  
North Dakota State Auditor's Office



GASB-68 Implementation Meeting  
June 2014



CPAs & BUSINESS ADVISORS



# Today's Agenda

- Overview and Setting Expectations
- The Basic Concepts of Defined Benefit Plans as They Apply to the TFFR / PERS
- The Basics of GASB-67, 68 and 71
- Decisions that are being made

These seminar materials are intended to provide the seminar participants with guidance in accounting and financial reporting matters. The materials do not constitute, and should not be treated as professional advice regarding the use of any particular accounting or financial reporting technique. Every effort has been made to assure the accuracy of these materials. Eide Bailly LLP and the author do not assume responsibility for any individual's reliance upon the written or oral information provided during the seminar. Seminar participants should independently verify all statements made before applying them to a particular fact situation, and should independently determine consequences of any particular technique before recommending the technique to a client or implementing it on the client's behalf.

# Overview and Setting Expectations for Today



CPAs & BUSINESS ADVISORS



# **1. CHECK OUR MISCONCEPTIONS AND MISINFORMATION AT THE DOOR**



## **2. EVERYONE PARTICIPATE**



# 3. NO QUESTION IS A “BAD” QUESTION



**4. WE CAN SPEND AS LONG  
AS YOU WANT ON ANY  
ASPECT OF DEFINED BENEFIT  
PENSIONS**



# 5. NO DEBITS AND CREDITS!



**6. TAKE AWAY AT LEAST ONE  
THING THAT WILL HELP YOU (OR  
SOMEONE YOU REPORT TO)  
MAKE BETTER DECISIONS**



# **7. THERE MAY BE THINGS I / WE DON'T KNOW**



**8. UNDERSTAND THAT THERE  
MAY BE MORE THAN ONE  
ANSWER**



# **9. DETAILS EVEN FROM GASB ARE STILL EVOLVING**



**10. REALIZE THAT 4 HOURS  
IS JUST SCRATCHING THE  
SURFACE...**

# The Basic Concepts of Defined Benefit Plans



As they Apply to the North Dakota Teachers' Fund for Retirement  
&  
The North Dakota Public Employees Retirement System

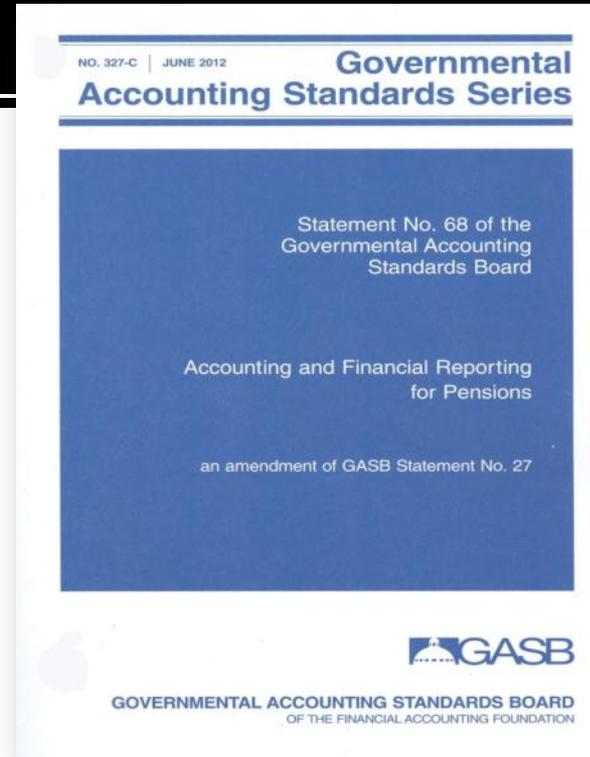
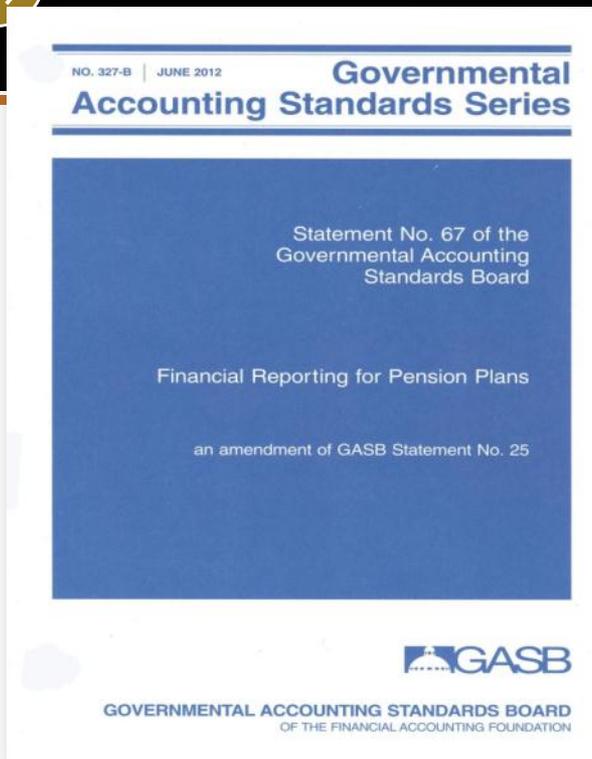


FINANCIAL SERVICES



# Some Basic Definitions of Defined Benefit Plans – just an introduction

- **Single Employer Plan**
  - A plan that is only open to one employer or multiple departments /functions within one employer
- **Agent Multiple – Employer Plan**
  - A plan that includes more than one employer
  - Assets pooled for investment purposes
  - Separate account exists for *each* employer
  - Employer's assets can *only be used to pay for that employer's benefits* (and no others)
- **Cost Sharing Multiple – Employer Plan – PERS Main / Law Enforcement / TFFR**
  - A plan that includes more than one employer
  - Assets and liabilities are pooled
  - All assets are available to pay for all benefits



**Statement 67**

Financial Reporting for Pension Plans

**Statement 68**

Accounting and Financial Reporting for Pensions

**Statement 71 (not pictured)**

Pension transition for contributions made subsequent to the measurement date



# Overview of the New GASB Requirements

- GASB 67 provides for accounting with respect to Plans (replaces GASB 25)
  - “Plans” in this case are PERS and TFFR
  - Effective for fiscal years beginning after June 15, 2013
- GASB 68 provides for financial reporting by employers (replaces GASB 27)
  - “Employers” are the entities making the contributions (e.g., State, Cities, Counties, School Districts, etc.)
  - Effective for fiscal years beginning after June 15, 2014
- Net Pension Liability reported on each employer’s balance sheet and in each Plan’s notes to the financial statements
  - Entry age cost method
  - Market value of assets
  - Blended discount rate
- Accounting and financial reporting divorced from contribution requirements
- Annual pension expense (for employers) is essentially equal to change in Net Pension Liability during the year, with deferrals of certain items



# The New GASB Revolution

- **Effective dates**
  - For plan reporting: plan years beginning after June 15, 2013  
(2013/2014 for fiscal year plans or 2014 for calendar year)
  - For employer reporting: fiscal years beginning after June 15, 2014  
(2014/2015 for fiscal year employers or 2015 for calendar year)

# GASB Objectives and Goals

Focus on FINANCIAL REPORTING not operations

- GASB establishes accounting and financial reporting standards, not funding policies
- Focus on pension obligation, changes in obligation, and attribution of expense
- **Therefore – converting from modified cash to accrual basis**  
Assume Governments Last Longer than 1 year Unlike Businesses
- Cost of services to long-term operation
- “Interperiod equity” matches current period resources and costs  
Use Federal Guidance (US DOL / SSA) on Who is an Employee and Who they Work For
- Employer incurs an obligation to its employees for pension benefits
- Transaction is in context of a career-long relationship
- **Therefore – EMPLOYER has reporting and not plan**



# The GASB Revolution

- **FOUR Major Focus Areas** in the new standards
  1. Placing the Net Pension Liability on the Balance Sheet
  2. Decoupling Expense from Funding
  3. Accounting for Cost-Sharing Plans (n/a for single employer)
  4. Expanding Disclosure Information (Notes & RSI)
- Timing of Measurements, Effective Dates
- Implementation Guides and Audit Guidelines



# Major Focus Area #1 – EMPLOYERS

## Net Pension Liability Reported on Balance Sheet

- Net Pension Liability (NPL)
  - Total pension liability (TPL) minus plan assets at market value (“plan net position”)
    - TPL uses new “blended” discount rate and “Entry age” cost method
    - Similar to Unfunded Actuarial Accrued Liability (UAAL) but using market assets, not “smoothed” assets
    - Note 5-year asset smoothing still allowed (in determining pension expense), but reported separately
    - NPL must be reported on the employer’s “balance sheet”
  - Currently, UAAL is reported in the Required Supplementary Information (RSI) of the PLAN
  - Currently, only the Net Pension Obligation (NPO) is reported on the balance sheet, of the PLAN (not reported if \$0)
    - Cumulative difference between annual required contribution (ARC) and actual contributions



# Net Pension Liability Reported on Financials

- Discount rate is based on projected benefits, current assets, and projected assets for current members
  - Projected assets include contributions on behalf of current members and **exclude** contributions intended to fund the service cost for future employees
- For projected benefits that are covered by projected assets
  - Discount using the long-term expected rate of return on assets
  - PERS/TFFR long-term rate of return is 8%
- For projected benefits that are **not** covered by projected assets
  - Discount using yield on 20-year AA/Aa tax-exempt municipal bond index
  - As of June 30, 2013, rate was 3.92%
- Solve for a single rate that gives the same total present value
  - Use that single equivalent rate to calculate the Total Pension Liability (TPL)

## Implications:

- Both PERS and TFFR can use the 8% long-term rate



# Net Pension Liability –June 30, 2013 Per Segal (in thousands) (*estimated*)

	PERS Main	TFFR
Total Pension Liability at 8.00%	\$2,633,572	\$2,997,139
Net Plan Position (i.e., MVA)	1,899,459	1,839,584
Net Pension Liability (NPL)	734,113	1,157,555
<b>Sensitivity to changes in discount rate</b>		
• 1% decrease (7.00%)	\$1,050,948	\$1,538,142
• Current discount rate (8.00%)	734,113	1,157,555
• 1% increase (9.00%)	522,938	833,648

- NPL is calculated for each Plan in total
- Each employer is assigned a share of the NPL



## Major Focus Area 2 – EMPLOYERS Decoupling Expense from Funding

- **No change will occur in contribution rates *solely* due to implementation of GASB-68**
- Currently, pension expense is based explicitly on an actuarially determined funding requirement (largely based on rates)
  - The ARC, which is the “annual required contribution”
    - Even though is not required to be contributed!
  - Based on established practices for managing contribution volatility
    - Asset smoothing and UAAL amortization
  - The ARC served as a de facto funding standard
- New GASB pension expense is the change in NPL each year, with deferred recognition of only certain elements
  - ARC Specifically not intended to be a funding target or standard



# New Pension Expense Components

- Changes in Total Pension Liability that are recognized (i.e., expensed) immediately—no deferrals allowed
  - Service cost – pensionable compensation x rate
  - + Annual interest on the TPL
  - - Projected investment returns over the year
  - + / - All plan amendments
- Immediate recognition of all plan amendments, whether for actives or retirees
  - Probably different from funding
- Changes in assumptions / demographics *may* be immediate expense *or* amortized over remaining service of covered employees



# Summary of New Pensions Expense Components – a great cheat sheet

- Changes in the employer's Net Pension Liability will be recognized in pension expense more quickly – could be confusing

Source of Change in the Net Pension Liability	Current Standards		New Standards		
	Expense	Deferral	Expense	Deferral	
Service Cost	Immediate	None	Immediate	None	
Interest on the TPL	Immediate	None	Immediate	None	
Projected Investment Earnings	Immediate	None	Immediate	None	
Changes in Benefit Terms	Initial period amount	Amortization over a period up to 30 years (closed or open)	Immediate	None	
Changes in Assumptions			Initial period amount	Expense over average remaining service period of actives and inactives	
Differences between Assumed and Actual Economic and Demographic Factors				Expense over 5-year closed period	
Differences between Projected and Actual Earnings				Immediate	None
Other Changes in the NPL			None		

# »»» What Does it All Mean?

- Fiscal folk in the room will have some explaining to do to decision – makers
  - Decision – makers are used to compensation x statutory rate OR rate per employee
  - Budget and funding only a component of expense
  - **Suggestion – use the following slide to insert a schedule in MD&As to translate from annual contributions to annual expense as follows...**



# A Possible Way to Translate for Decision-makers

<b>Annual Contributions as determined by Actuary</b>	<b>\$x,xxx,xxx</b>
<b>Adjustments for annual amortizations of:</b>	
Differences between actual and expected experience	
Changes in assumptions	
Differences between projected and actual earnings on plan investments	
(COST SHARING ONLY) Changes in proportion and differences between contributions and proportionate share of contributions	
Contributions subsequent to measurement date recognized as deferred outflows of resources (GASB-71)	
Other	
<b>Pension Expense</b>	<b>\$x,xxx,xxx</b>



# Pension Expense for FYE June 30, 2013 per Segal (in thousands) (*estimated*)

	PERS Main	TFFR
Service cost	\$80,446	\$60,724
Interest on the Total Pension Liability	191,120	222,712
Recognized portion of current-period difference between expected and actual experience	4,545	614
Member contributions	(49,371)	(53,825)
Projected earnings on plan investments	(134,311)	(132,578)
Recognized portion of current-period difference between projected and actual earnings on plan investments	(18,149)	(17,525)
Administrative expense	2,020	1,624
Recognition of deferred outflows of resources	0	0
Recognition of deferred inflows of resources	0	0
Pension expense for FYE 6/30/2013	\$76,300	\$81,746



## Major Focus Area 3 – **EMPLOYERS**

### Accounting for Cost-Sharing – **everyone will change in the room**

- Current standards are simple
  - Pension expense is equal to the statutorily required contribution
    - No “ARC” on financial statements
  - Balance sheet only presents the sum of the difference (if any) since 1988 between the statutorily required contribution and the actual contribution – currently \$0
  - Unfunded actuarial accrued liability is not reported at all on employers’ statements



# Accounting for Cost-Sharing

---

- Recognize proportionate share of *the plan's* total
  - Net Pension Liability
  - Pension Expense
  - Deferred Positions

**NONE of these are to be reported on the plan financial statements due to employer : employee exchange of work for compensation**



# Example Schedule of Cost Sharing Proportion

## 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	
Total	\$ <u>5,514,641</u>	<u>100.0</u>	

Based on prior covered payroll

**STAY TUNED FOR AUDIT  
DETAILS OF THIS**



# Impact on Employers - Summary

- Each employer must disclose their proportionate share of:
  - Net Pension Liability (Asset)
  - Pension expense
  - Deferred outflows of resources and deferred inflows of resources related to pensions
  
- For both PERS Main / LE Plan and TFFR, the proportionate share can be allocated based on covered payroll
  
- For this hypothetical exercise, we consider the following two employers for PERS Main:
  - Employer 1, a relatively large employer (approximately 2% of total payroll)
  - Employer 2, a small employer (approximately 0.03% of total payroll)
  
- In addition, the State's portion of the PERS Main System is 56%
  
- For TFFR, we consider two sample school districts:
  - District 1, a large employer (approximately 10% of total payroll)
  - District 2, a small employer (approximately 1% of total payroll)



# Proportionate Share of NPL – PERS Main System per Segal (in thousands) (estimated)

	Total	State Employees	Employer 1	Employer 2
Payroll	\$865,868	\$486,381	\$21,224	\$247
NPL/Proportionate Share	734,113	412,371	17,995	210
<b>Sensitivity to changes in discount rate</b>				
• 1% decrease (7.00%)	\$1,050,948	\$590,345	\$25,761	\$300
• Current discount rate (8.00%)	734,113	412,371	17,995	210
• 1% increase (9.00%)	522,938	293,748	12,818	143
Pension Expense/Proportionate Share	\$76,300	\$42,860	\$1,870	\$22
Deferred Outflows of Resources	21,771	12,230	534	6
Deferred Inflows of Resources	72,597	40,780	1,780	21



# Proportionate Share of NPL – TFFR per Segal (in thousands) (estimated)

	Total	District 1	District 2
Payroll	\$550,000	\$55,000	\$5,500
NPL/Proportionate Share	1,157,555	115,756	11,576
<b>Sensitivity to changes in discount rate</b>			
• 1% decrease (7.00%)	\$1,538,142	\$153,814	\$15,381
• Current discount rate (8.00%)	1,157,555	115,756	11,576
• 1% increase (9.00%)	833,648	83,365	8,336
Pension Expense/Proportionate Share	\$81,746	\$8,175	\$817
Deferred Outflows of Resources	3,686	369	37
Deferred Inflows of Resources	70,102	7,010	701



# Required Supplementary Information – PERS Main – Per Segal (in thousands) (estimated)

	State Employees	Employer 1	Employer 2
State/Employer proportion of NPL	56%	2%	0.03%
State/Employer proportionate share of the NPL	\$412,371	\$17,995	\$210
State/Employer covered employee payroll	\$486,381	\$21,224	\$247
State/Employer proportionate share of the NPL as a percentage of its covered employee payroll	84.8%	84.8%	84.8%
Plan fiduciary net position as a percentage of the total pension liability	72.1%	72.1%	72.1%
Statutory employer contribution	\$32,198	\$1,405	\$16
Contributions in relation to the statutory employer contribution	(32,198)	(1,405)	(16)
Contribution deficiency (excess)	\$0	\$0	\$0
State/Employer covered employee payroll	\$486,381	\$21,224	\$247
Statutory employer contributions as a percentage of covered employee payroll	6.62%	6.62%	6.62%



# Required Supplementary Information – TFFR (in thousands) (estimated)

	District 1	District 2
District's proportion of NPL	10.0%	1.0%
District's proportionate share of the NPL	\$115,756	\$11,576
District's covered employee payroll	\$55,000	\$5,500
District's proportionate share of the NPL as a percentage of its covered employee payroll	210.5%	210.5%
Plan fiduciary net position as a percentage of the total pension liability	61.4%	61.4%
Actuarially determined contribution	\$5,083	\$508
Contributions in relation to the actuarially determined contribution	(5,913)	(591)
Contribution deficiency (excess)	(\$830)	(\$83)
District's covered employee payroll	\$55,000	\$5,500
Contributions as a percentage of covered employee payroll	10.75%	10.75%



# Example Schedule of Employer Pension Amounts Allocated by Cost Sharing Plan

## EXAMPLE COST SHARING PENSION PLAN

Schedule of Pension Amounts

June 30, 2015

Employer/ Nonemployer (special funding situation)	Deferred Outflow of Resources				Deferred Inflows of Resources				Pension Expense		
	Net Pension Liability	Differences Between Expected and Actual Economic Experience	Differences Between Projected and Actual Investment Earnings	Changes of Assumptions	Changes in Employer Proportion and Differences Between Contributions and Proportionate Share of Pension Expense	Differences Between Expected and Actual Economic Experience	Differences Between Actual and Projected Investment Earnings	Changes of Assumptions	Changes in Employer Proportion and Differences Between Contributions and Proportionate Share of Pension Expense	Proportionate Share of Pension Expense	Net Amortization of Deferred Amounts from Changes in Proportion and Proportionate Share of Pension Expense
State of Example	\$ 38,589,135	428,768	2,058,088	1,500,690	782,365	380,371	1,063,285	–	584,365	1,878,717	12,375
Employer 1	4,831,647	53,685	257,688	187,898	96,633	47,625	133,131	–	125,325	235,229	(1,793)
Employer 2	5,798,553	64,428	309,256	225,499	115,971	57,156	159,773	–	245,386	282,303	(8,088)
Employer 3	8,698,585	96,651	463,925	338,279	173,972	85,742	239,681	–	125,632	423,492	3,021
Employer 4	11,396,244	126,625	607,800	443,188	227,925	112,332	314,012	–	386,325	554,828	(9,900)
Employer 5	2,597,183	28,858	138,516	101,002	51,944	25,600	71,563	–	42,358	126,444	599
Employer 6	1,716,569	19,073	91,550	66,756	34,331	16,920	47,298	–	24,325	83,571	625
Employer 7	1,696,283	18,848	90,468	65,967	33,926	16,720	46,739	–	125,325	82,584	(5,712)
Employer 8	14,316,562	159,073	763,550	556,756	286,486	141,118	394,478	–	152,005	697,004	8,405
Employer 9	4,814,421	53,494	256,769	187,228	68,325	47,456	132,657	–	87,325	234,391	(1,188)
Employer 10	4,808,301	53,426	256,443	186,990	67,528	47,395	132,488	–	41,035	234,093	1,656
<b>Total</b>	<b>\$ 99,263,485</b>	<b>1,102,928</b>	<b>5,294,055</b>	<b>3,860,249</b>	<b>1,939,406</b>	<b>978,435</b>	<b>2,735,105</b>	<b>–</b>	<b>1,939,406</b>	<b>4,832,655</b>	<b>–</b>

**STAY TUNED FOR AUDIT DETAILS OF THIS**



# Major Focus Area 4 - EMPLOYERS

## Expansion of Disclosure Information

- Includes both Notes and Required Supplementary Information (RSI)
- **Greatly** expanded plan and employer disclosures, including:
  - Description of the plan and assumptions
  - Policy for determining contributions
  - Sensitivity analysis of the impact on NPL of a one percentage point increase and decrease in the discount rate
  - Changes in the NPL for the past 10 years
  - Development of long-term earnings assumption



# Expansion of Disclosure Information

- More new disclosure information
  - “Actuarially determined (employer) contribution” (aka the ARC)
    - Basis and amount – if determined!
    - Comparison to amount actually contributed
    - May encourage review (or creation) of actuarial funding policy
- Expanded disclosures greatly increase the pension information needed for plan and employer’s financial statements
  - New and challenging questions for employer’s financials:
    - **Which actuary/auditor develops this information?**
    - **Who pays for it?**



# GASB 68 FOOTNOTE DISCLOSURES (ALL EMPLOYERS)

1. Plan Description and Related Information (census not necessary for cost sharing employers)
2. Changes in Net Pension Liability (NPL)
3. Significant Assumptions
4. Discount Rate and Key Discount Rate Assumptions
5. Pension Plan's Fiduciary Net Position
6. Measurement and Actuarial Valuation Date
7. Changes/New Assumptions made related to Benefit Terms
8. Changes made subsequent to Measurement Date
9. Current Period Pension Expense
10. Schedule of Deferred Outflows/Inflows of Resources

# GASB 68 Cost Sharing Employers



Footnotes, Disclosures and Required Supplementary  
Information



CPAs & BUSINESS ADVISORS



# COST SHARING EMPLOYERS FOOTNOTES TO THE FINANCIAL STATEMENTS

- **Information likely developed by the plan in a “template”**
- **Descriptive Plan Information**
  - Name of the Pension Plan
  - Identification as Single Employer/Agent Plan/Cost Sharing Plan and the Plan Administrator
  - Benefit Terms (classes of employees covered, types of benefits, key elements of the pension formula, automatic COLAs, authority under which benefit terms are established)
  - Brief description of Contribution Requirements
  - Whether the pension plan issues a standalone financial report or included part of another government entity.



# COST SHARING EMPLOYERS FOOTNOTES TO THE FINANCIAL STATEMENTS

- Discount Rate Disclosures
  - Discount Rate applied and change from last measurement date.
  - Assumptions about projected cash flows related to the pension plan including contributions from employers, non-employers and employees.
  - Long-term expected rate of return and how it was determined.
  - Municipal bond rate used and source of that rate.
  - Breakdown of how projected benefit payments are allocated between those applied to the long-term expected rate of return and municipal bond rate to arrive at the discount rate.
  - Assumed Asset Allocation and long-term expected rate of return applied to each asset class.
  - NPL calculated using a discount rate that is +/-1% than stated Discount Rate



# COST SHARING EMPLOYERS FOOTNOTES TO THE FINANCIAL STATEMENTS

## Significant Assumptions

- Inflation
- Salary Changes
- Ad Hoc post-employment benefit changes (COLA)
- Mortality Assumptions/Source of Assumptions (i.e. published mortality table/experience study)
- Dates of the Experience Study



# REQUIRED SUPPLEMENTARY INFORMATION (RSI) FOR FINANCIAL STATEMENTS (EMPLOYERS)

- **Schedule 1:**
  - **10 Year** – Employer's Proportionate Share (% , Amount) of Collective NPL, Covered Employee Payroll, Net Pension Liability as a % of Employee Covered Payroll, Pension Plans Net Position as % of TPL
  - **10 Year** - FNP/TPL/Funded Status/Covered Payroll/NPL as % of Payroll
- **Schedule 2:**
  - **10 Year** - ADEC to Actual Contributions (If necessary)
  - **10 Year** - Statutory/Contractual Contributions to Actual Contributions and Payroll (If necessary)
- **Note disclosure to RSI**

**10 Year Schedules not required in year of implementation other than the ADEC schedule which is presented in full.**



# Required Supplementary Information – Cost Sharing Employer

	20X9	20X8	20X7	20X6	20X5
District's proportion of the net pension liability (asset)	0.20%	0.19%	0.19%	0.19%	0.20%
District's proportionate share of the net pension liability (asset)	\$ 14,910	\$ 11,738	\$ 12,972	\$ 13,495	\$ 14,892
District's covered-employee payroll	\$ 11,512	\$ 10,412	\$ 9,715	\$ 9,553	\$ 9,522
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	129.52%	112.74%	133.53%	141.26%	156.40%
Plan fiduciary net position as a percentage of the total pension liability	81.38%	83.20%	80.41%	78.53%	75.79%

Note: Only 5 years are presented here;  
10 years of information would be required



# Required Supplementary Information – Cost Sharing Employer

	<u>20X9</u>	<u>20X8</u>	<u>20X7</u>	<u>20X6</u>	<u>20X5</u>
Contractually required contribution	\$ 2,095	\$ 2,057	\$ 1,969	\$ 1,649	\$ 1,176
Contributions in relation to the contractually required contribution	<u>(2,095)</u>	<u>(2,057)</u>	<u>(1,969)</u>	<u>(1,649)</u>	<u>(1,176)</u>
Contribution deficiency (excess)	<u>\$ -</u>				
District's covered-employee payroll	\$ 12,097	\$ 10,962	\$ 10,063	\$ 9,634	\$ 9,538
Contributions as a percentage of covered-employee payroll	17.32%	18.76%	19.57%	17.11%	12.33%

Note: Only 5 years are presented here;  
10 years of information would be required



# Note to Required Supplementary Information

- *Changes of benefit terms.* Amounts reported in 20X8 reflect an increase in disability benefits to be equivalent to retirement benefits
- *Changes of assumptions.* Amounts reported in 20X9 reflect an adjustment of the expectation of life after disability to more closely reflect actual experience. For amounts reported in 20X6 and later, the expectation of retired life mortality was based on RP-2000 Mortality Tables rather than on the 1983 Group Annuity Mortality Table, which was used to determine amounts reported prior to 20X6.



# Effective Date and Transition Issues

- **Plans** – Fiscal years *beginning after* June 15, 2013
- **Employers** – Fiscal years *beginning after* June 15, 2014
- Prior period adjustments will likely take place for a number of years as deferred positions become clarified
- RSI
  - If data is unknown at transition – must include a text box on each schedule explaining why – similar to GASB-54



# KEY DATES

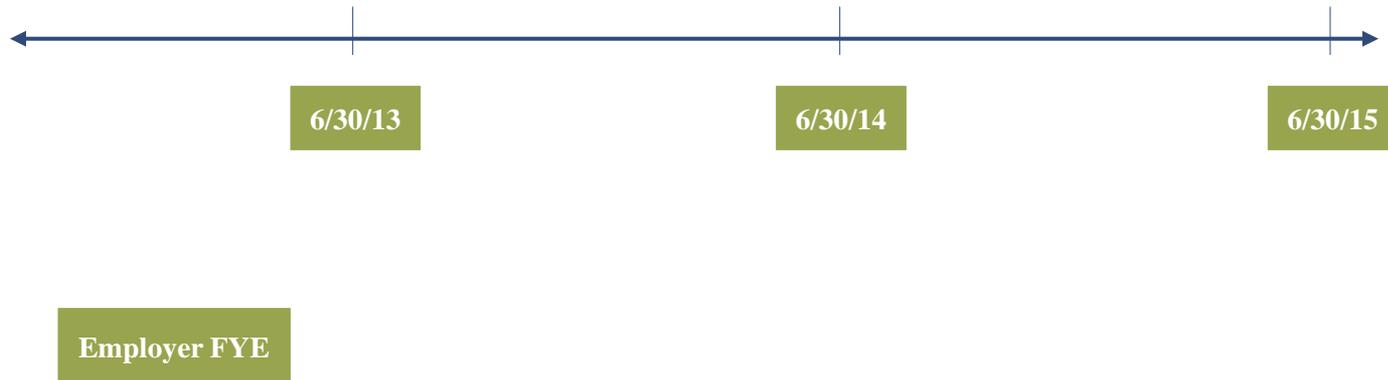


# Key Dates

- Potentially 3 different dates we need to think about
  - Employer fiscal year-end
  - 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



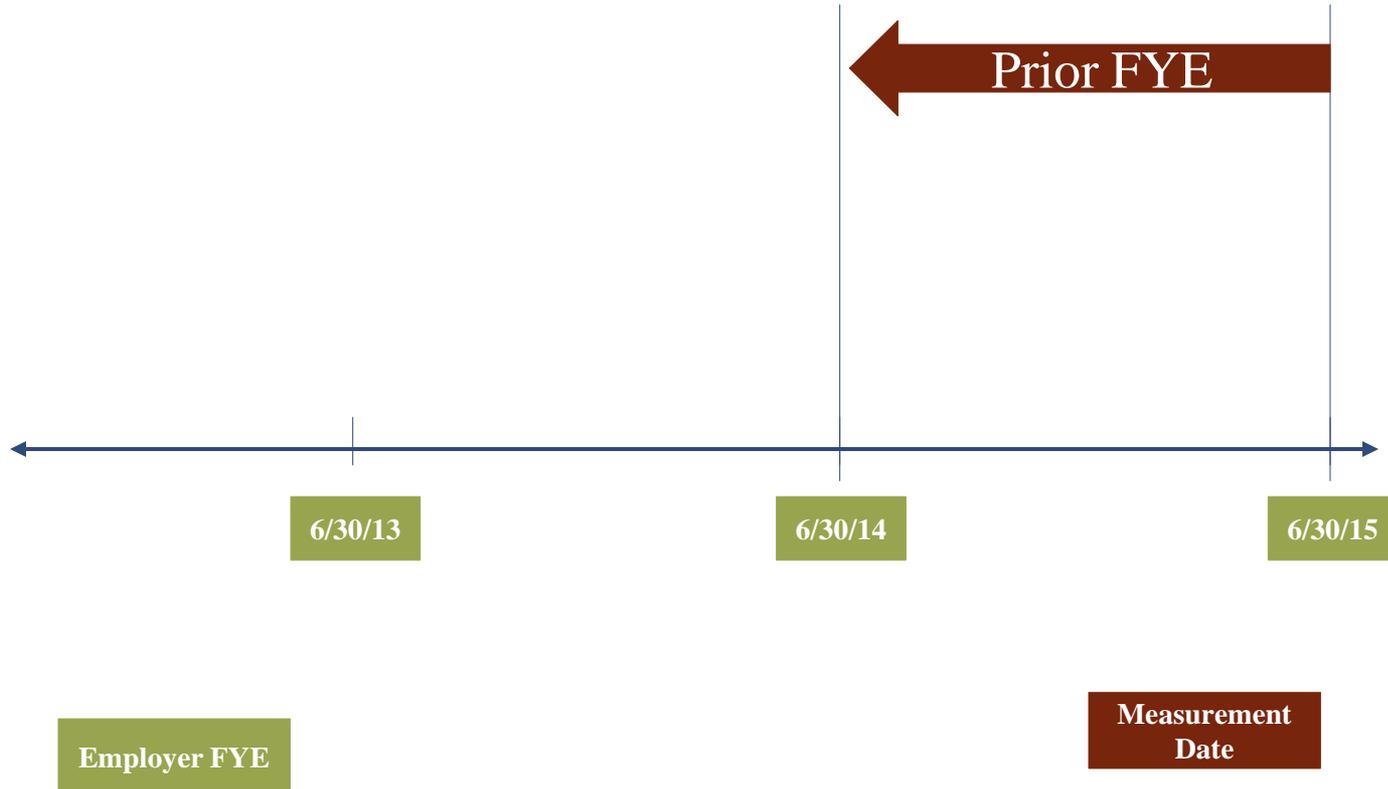
# Timing - Example



*OK to change dates to  
12/31 on your handouts  
for employer FYE*



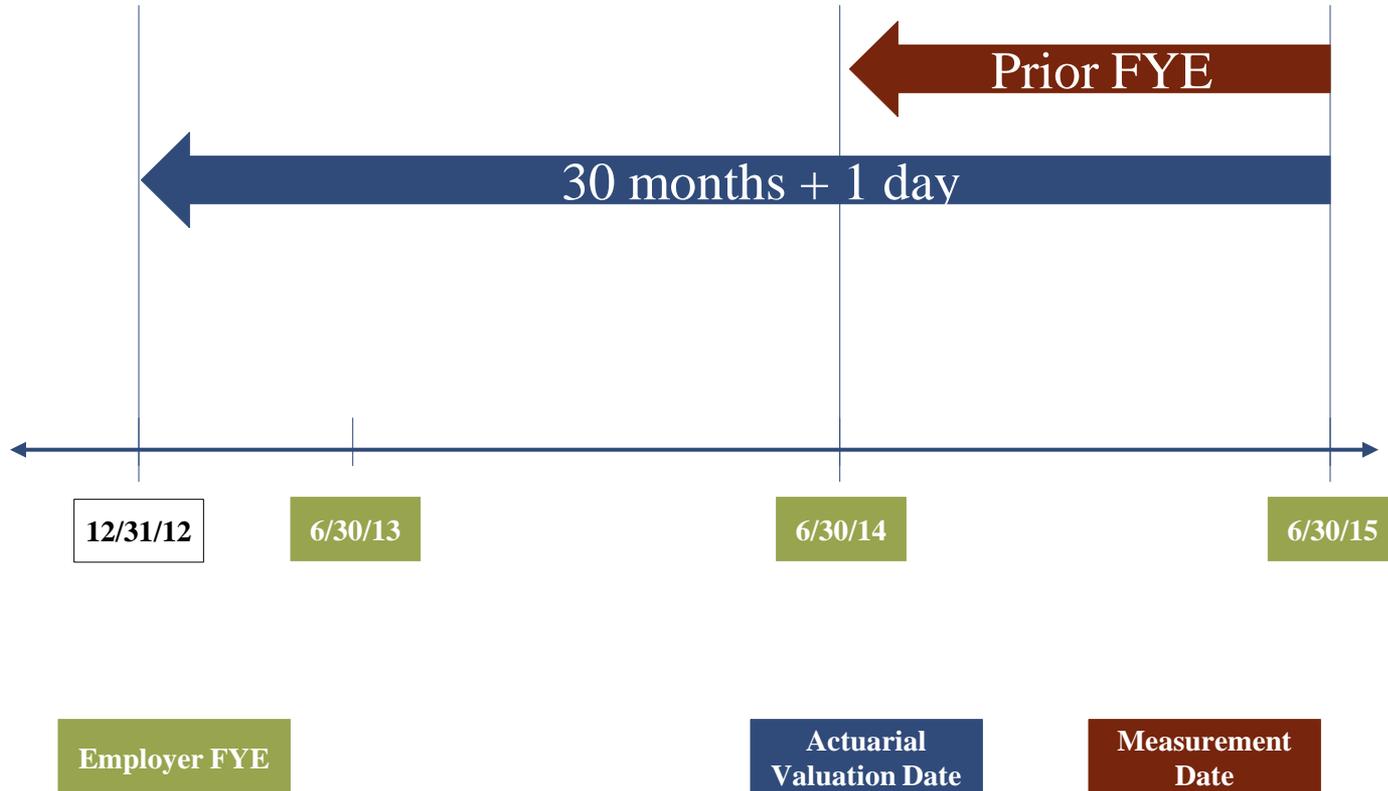
# Timing - Example



*OK to change dates to 12/31 on your handouts for employer FYE*



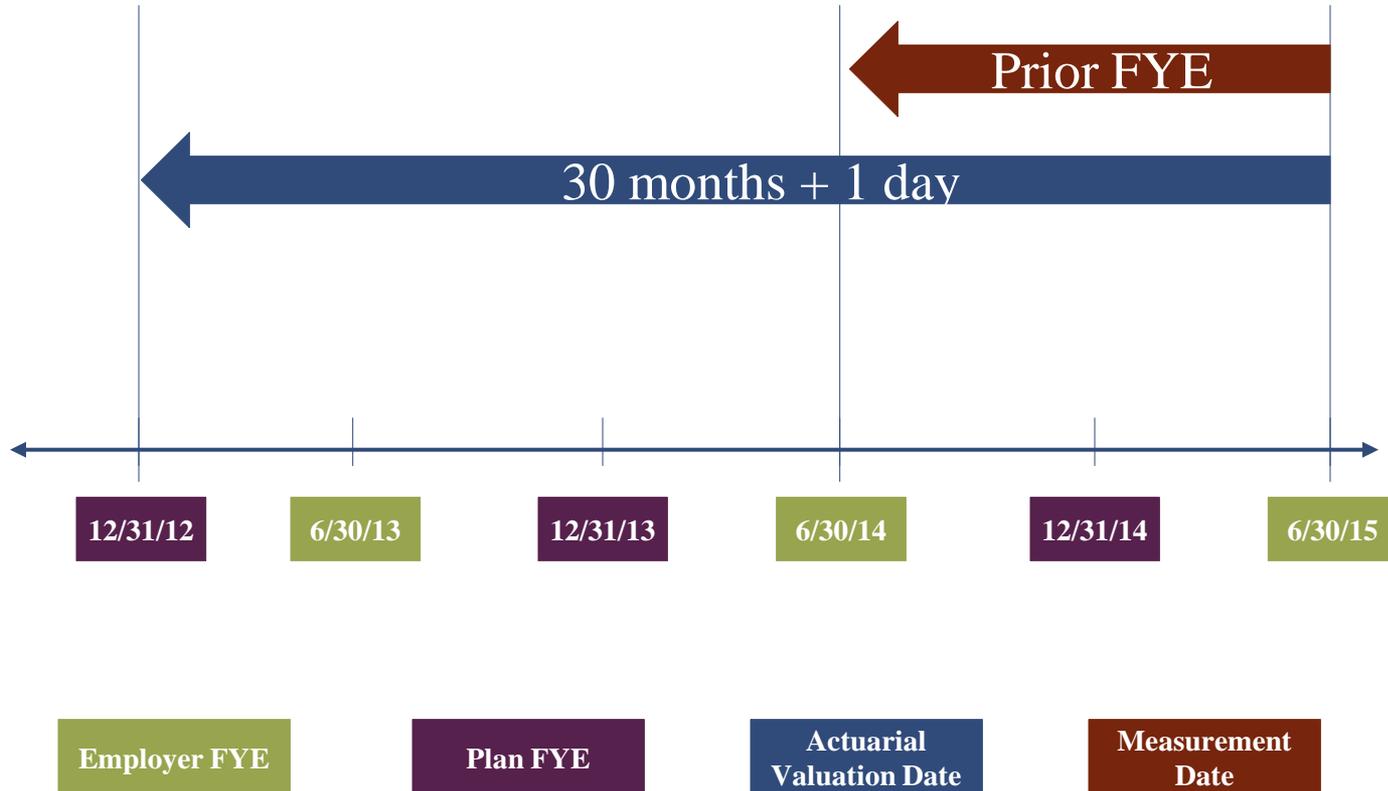
# Timing - Example



*OK to change dates to 12/31 on your handouts for employer FYE*

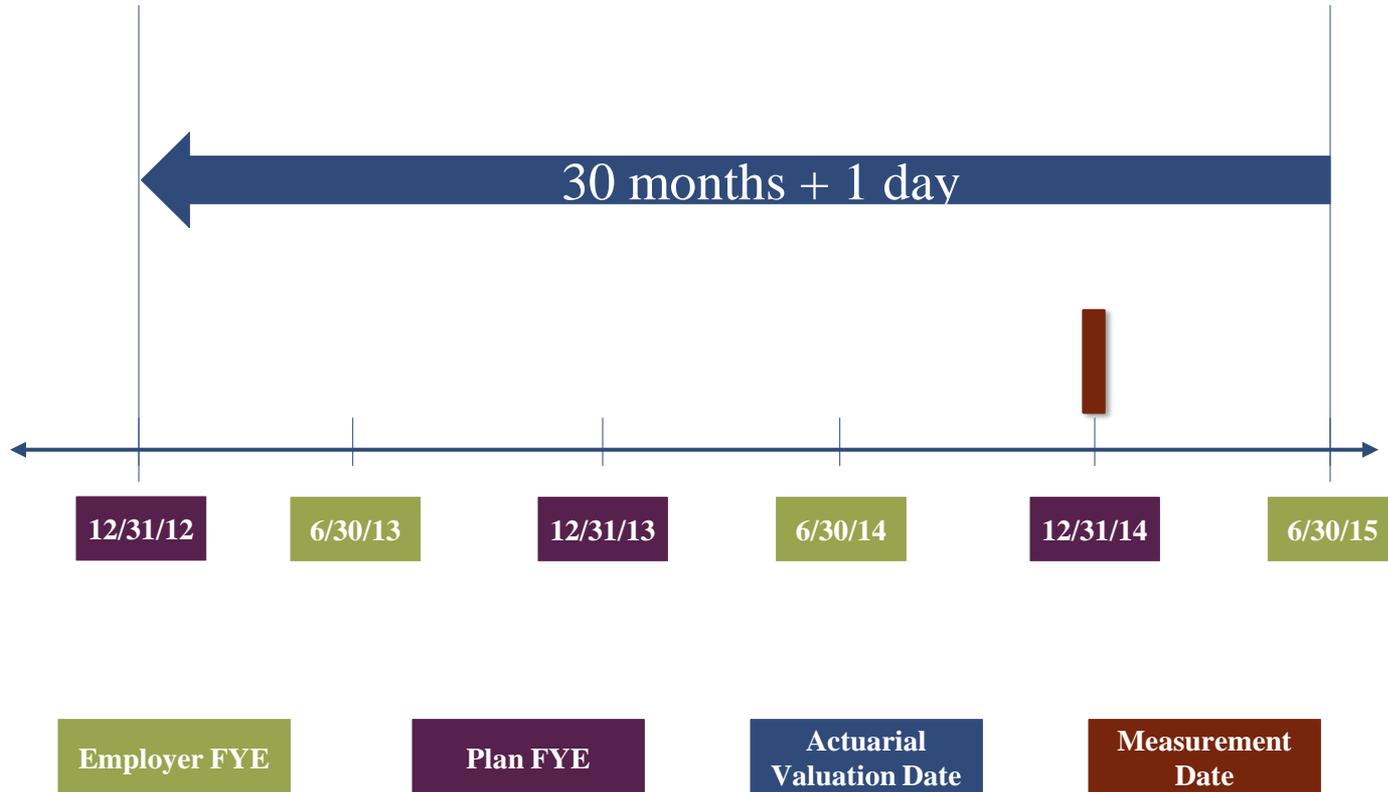


# Timing - Example

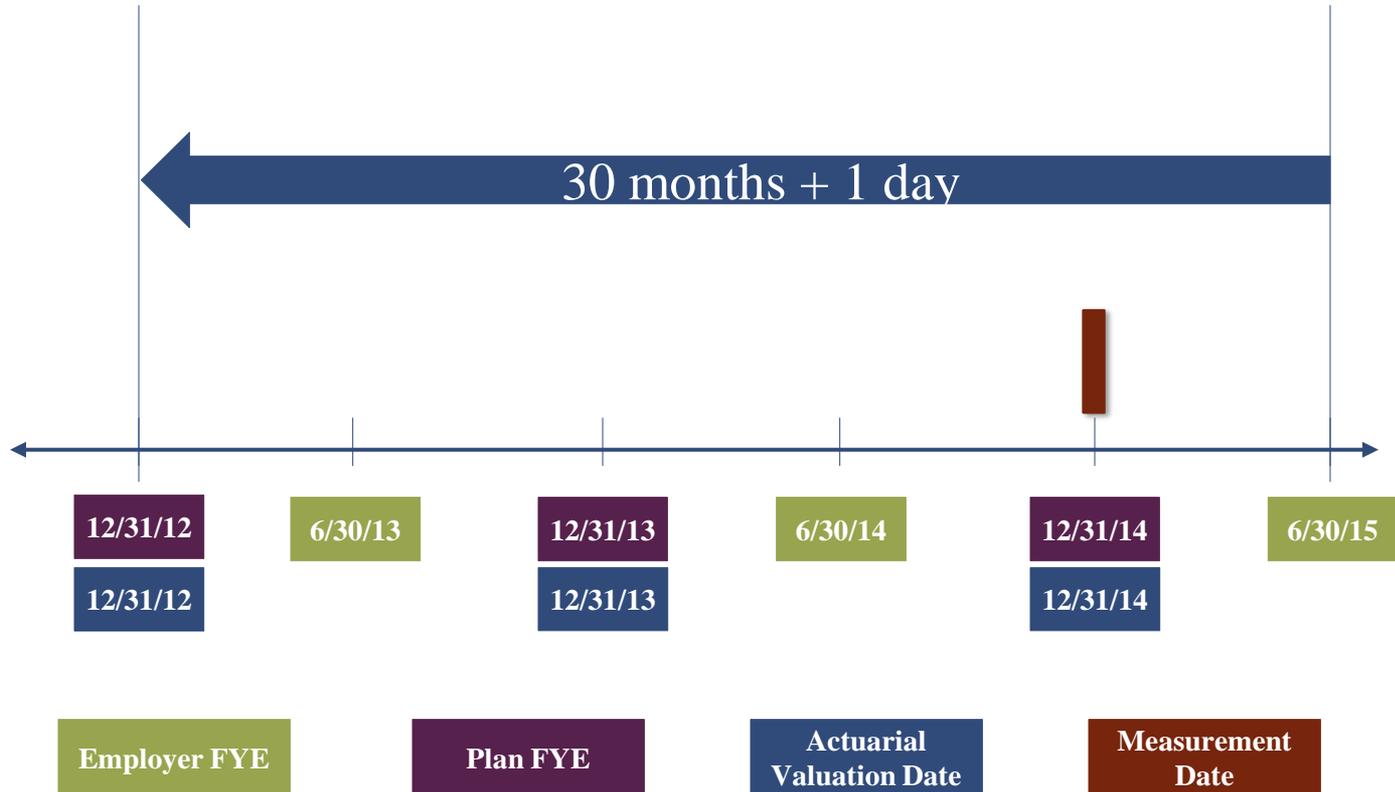




# Timing - Example

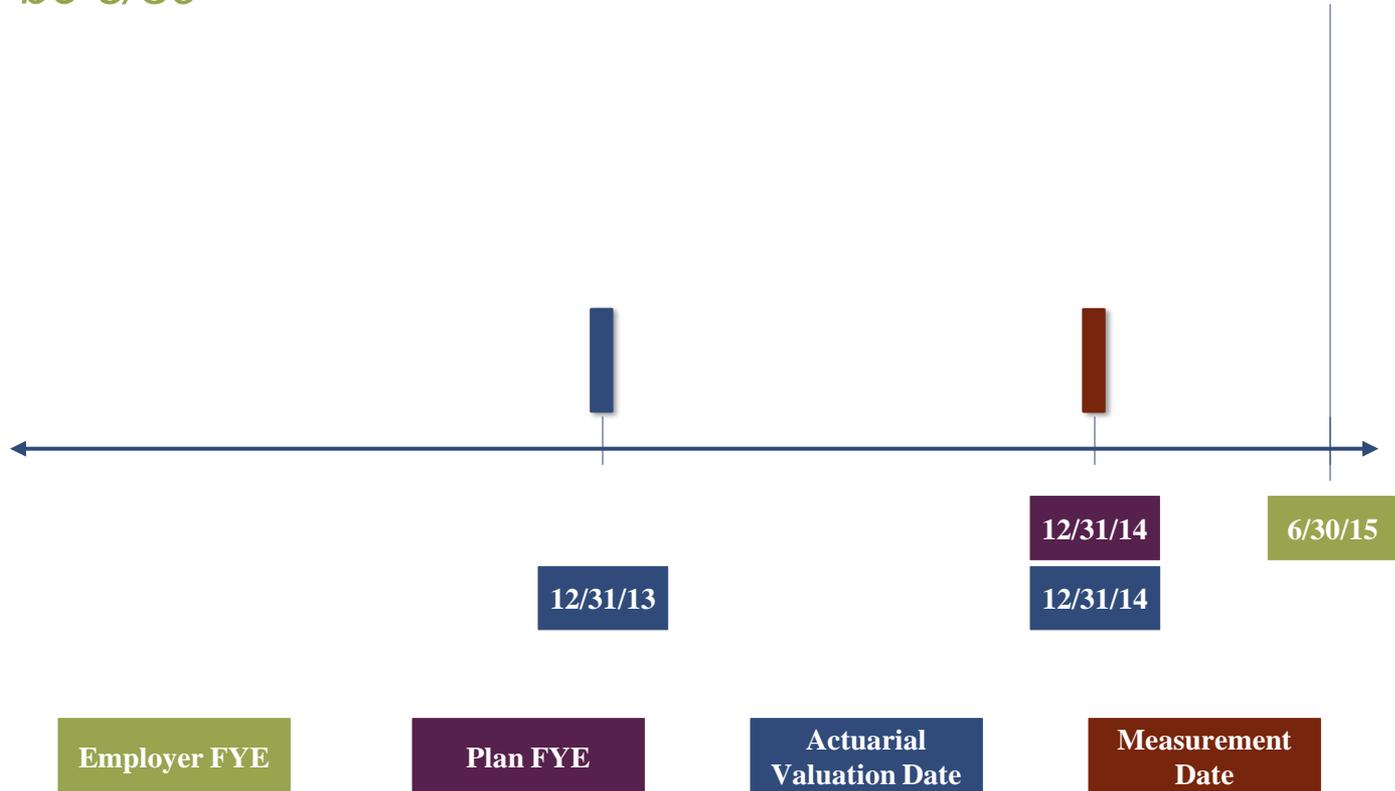


# Timing - Example



# Timing - Example

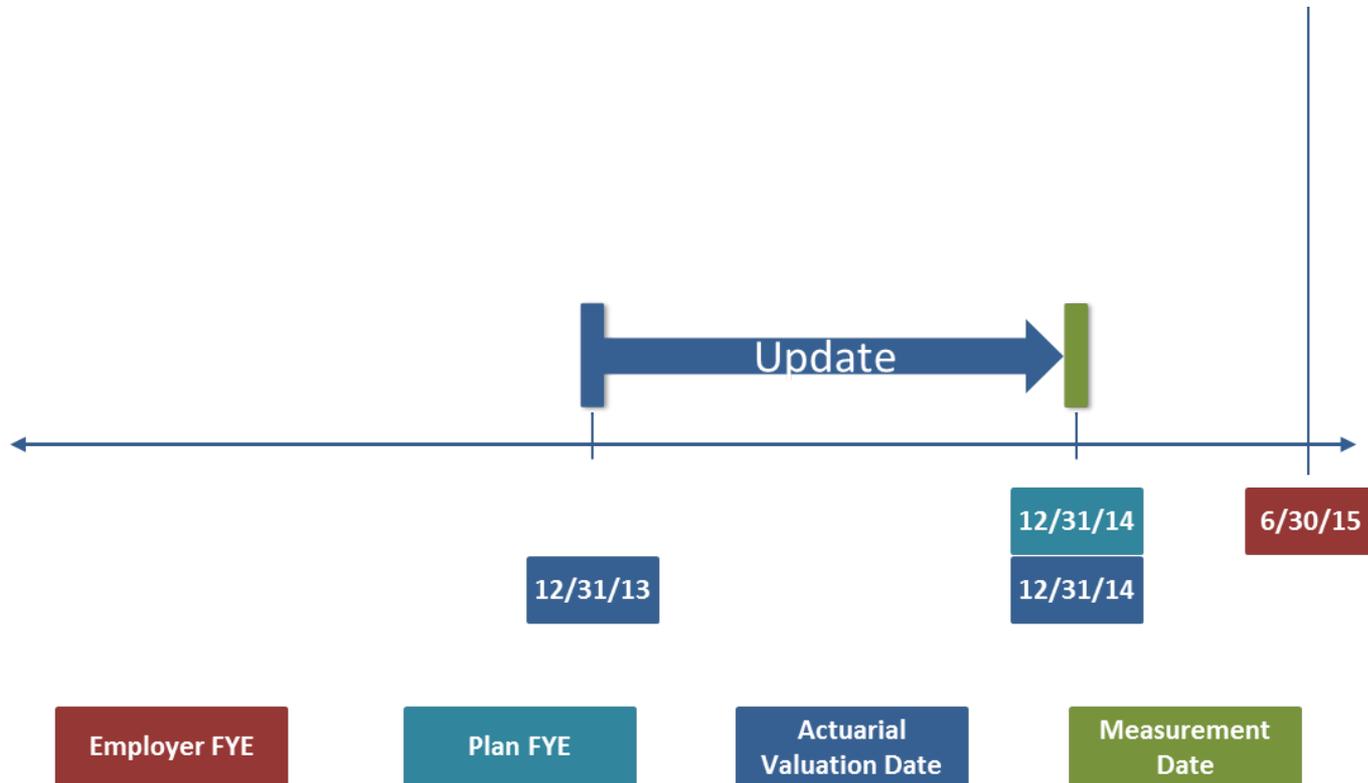
*12/31 dates for plan /  
actuary may be 6/30*



*OK to change dates to  
12/31 on your handouts  
for employer FYE*

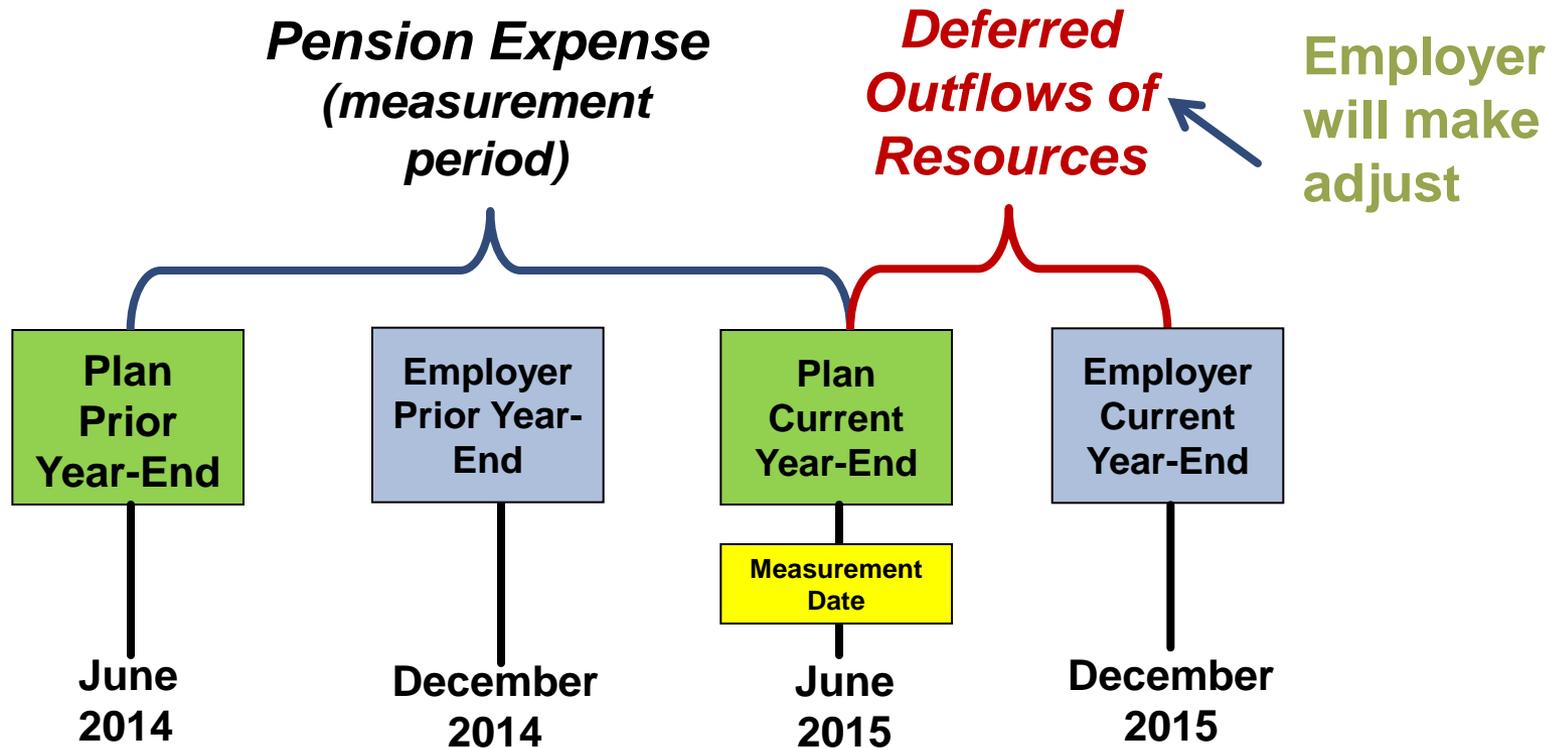
# Timing - Example

*12/31 dates for plan /  
actuary may be 6/30*





# Timing of Measurement of Total Pension Liability



Measurement date will most likely correspond to year-end of plan. Employer contributions made directly by the employer subsequent to the measurement date of the net pension liability and before the end of the employer's fiscal year should be recognized as a deferred outflow of resources.

# Prior Period Adjustments

- Example:
  - Employer – Net Pension Liability as of **June 30, 2015**
    - Measurement date – June 30, 2014 (annual valuation from 7/1/13 to 6/30/14)
    - No comparative financial statements
    - **Prior period adjustment would be as of 7/1/14** including
      - **Deferred outflows** *determined as of the beginning of the year*
        - **Contributions from July 1, 2013 to June 30, 2014 would not be included as they are before the beginning of year**
        - **Contributions after June 30, 2014 not part of PPA**
      - **NPL**
      - **Deferred inflows / outflows as of the measurement date**

# Prior Period Adjustments

- How to PPA:
  1. Remove any Net Pension Obligation – *might be \$0*
  2. Remove any payables to the plan – *might be \$0*
  3. Add the balance of any NPL or proportion *as of the beginning of the period*
  4. Add deferred outflows of resources for contributions *after the measurement date* – **see transition guidance**
  5. Add deferred outflows of resources / deferred inflows of resources *as of the beginning of the period*
  6. Add any payables to the plan as of the beginning of the period

# Prior Period Adjustments

- If employer can determine deferred outflows / inflows of resources from investments, contributions **but cannot determine all other deferrals**
  - Don't record deferred positions of investments at implementation, only contributions.
    - Prior period adjustments when all others known
  - If can't determine all remaining deferred positions for all historical periods, report none except for contributions
    - Again – PPAs when known



# Again – the problem in Implementation

- GASB 68 requires employer to recognize NPL as of **the measurement date** no earlier than the prior fiscal year end
- Contributions made during the period *after measurement date but before reporting date* is required to be deferred
- Transition to new standards
  - If not practical to determine *all* deferred positions at transition, then start at zero.
  - BUT – contributions deferred!
  - Houston... we have a problem...

# Updated transition guidance

- Recognize a deferred amount for pension contributions made after actuarial report but before fiscal year end
- Recognize no other beginning balance for deferred positions **unless known at transition**
- Effective date – same as GASB-68



# BREAKING NEWS

- New OPEB Exposure drafts contain amendments to GASB-67 and 68
  - Clarified note disclosure to RSI elements
  - What to do if there are one-time assessments to pay for a “separately financed specific liability”
    - One-time assessment resulting from an increase in TPL due to an individual employer joining a plan or a change in benefits due to an individual employer
    - For cost –sharing employers - pension expense and change in amortizations may occur due to change in proportions
- Comments due on exposure drafts August 29<sup>th</sup>  
– public hearings in September



# AUDIT CONSIDERATIONS



# Where to Start?

- Plan, Employers and auditors may want to read statutes/plan document
  - Gain understanding of key provisions
- Obtain actuarial valuation report
  - Measurement date
  - Key assumptions
  - Plan provisions
- Obtain and test census data from actuary and payroll
- Obtain confirmation from actuary
- Evaluation of management's specialist
- Consider need for auditor specialist



# Census Data

- Key census data
  - Date of birth
  - Gender (male or female)
  - Date of hire or years of service
  - Date of termination or retirement
  - Marital status
  - Spouse date of birth
  - *Eligible* compensation (may NOT equal W-2s, especially in higher education)
  - Employment status
- Auditing census data
  - Active employees
  - Inactive/retired
- Resolving exceptions

Plan auditor  
may perform *or*  
work with  
employer  
auditors

The auditor must test the reliability and completeness of the census data provided to the actuary.



# Cost Sharing Employers

- 2 White Papers published by AICPA
  - Census data testing
  - Plan reporting to employers
- Census data testing would be **based on risk**
  - Testing coordinated by plan auditor
    - Employers > 20% of plan active employees tested annually
      - **Likely State only?**
    - Between 5% and 20% - tested every 5 years **Any?**
    - Less than 5% - tested every 10 years **but some tested annually to get comfort**
    - Very small employers may never get tested – immaterial
  - Report is an attestation report



## Cost-Sharing Plan Issues

- Audited plan financial statements don't give participating employers everything they need
- AICPA whitepapers at

<http://www.aicpa.org/INTERESTAREAS/GOVERNMENTALAUDITQUALITY/RESOURCES/GASBMATTERS/Pages/default.aspx>

Remember – these are “best practices”



# Cost-Sharing Plan Issues – Solutions provided by AICPA

- Plan provides supplemental “schedule of employer allocations” for which plan auditor is engaged to provide opinion
  - Use allocation method based on covered payroll or required (actual) contributions representative of future contributions and appropriate based on classes of benefits provided
  - Projected future contributions could be used if necessary (harder to audit)
  - **# of decimal places may become important for plans with large number of participating employers**

Note: Above not required by standard, but other alternatives create inconsistency and additional audit burden



# Reminder - 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	
Total	\$ <u>5,514,641</u>	<u>100.0</u>	

Allocation may be  
historical or  
actuarial



# Cost-Sharing Plan Issues – Solutions Provided by AICPA

- Plan provides supplemental “schedule of plan pension amounts by employer” for which plan auditor engaged to provide opinion
  - Supplemental schedule showing the following amounts by employer
    - Net pension liability
    - Deferred outflows (by category)
    - Deferred inflows (by category)
    - Pension expense



# Reminder - Example Schedule of Employer Pension Amounts

## EXAMPLE COST-SHARING PENSION PLAN

Schedule of Pension Amounts

June 30, 2015

Employer/ Nonemployer (special funding situation)	Deferred Outflow of Resources					Deferred Inflows of Resources				Pension Expense	
	Net Pension Liability	Differences Between Expected and Actual Economic Experience	Differences Between Projected and Actual Investment Earnings	Changes of Assumptions	Changes in Employer Proportion and Differences Between Contributions and Proportionate Share of Pension Expense	Differences Between Expected and Actual Economic Experience	Differences Between Actual and Projected Investment Earnings	Changes of Assumptions	Changes in Employer Proportion and Differences Between Contributions and Proportionate Share of Pension Expense	Proportionate Share of Pension Expense	Net Amortization of Deferred Amounts from Changes in Proportion and Share of Pension Expense
State of Example	\$ 38,589,135	428,768	2,058,088	1,500,690	782,365	380,371	1,063,285	–	584,365	1,878,717	12,375
Employer 1	4,831,647	53,685	257,688	187,898	96,633	47,625	133,131	–	125,325	235,229	(1,793)
Employer 2	5,798,553	64,428	309,256	225,499	115,971	57,156	159,773	–	245,386	282,303	(8,088)
Employer 3	8,698,585	96,651	463,925	338,279	173,972	85,742	239,681	–	125,632	423,492	3,021
Employer 4	11,396,244	126,625	607,800	443,188	227,925	112,332	314,012	–	386,325	554,828	(9,900)
Employer 5	2,597,183	28,858	138,516	101,002	51,944	25,600	71,563	–	42,358	126,444	599
Employer 6	1,716,569	19,073	91,550	66,756	34,331	16,920	47,298	–	24,325	83,571	625
Employer 7	1,696,283	18,848	90,468	65,967	33,926	16,720	46,739	–	125,325	82,584	(5,712)
Employer 8	14,316,562	159,073	763,550	556,756	286,486	141,118	394,478	–	152,005	697,004	8,405
Employer 9	4,814,421	53,494	256,769	187,228	68,325	47,456	132,657	–	87,325	234,391	(1,188)
Employer 10	4,808,301	53,426	256,443	186,990	67,528	47,395	132,488	–	41,035	234,093	1,656
Total	\$ 99,263,485	1,102,928	5,294,055	3,860,249	1,939,406	978,435	2,735,105	–	1,939,406	4,832,655	–



# Cost-Sharing Plan - Employer Auditor Considerations

- Evaluate plan auditor's report on supplemental schedules (AU-C 805)
  - If plan auditor doesn't report on, evaluate necessary audit procedures
- Test amounts in schedules relating to employer
- Test census data?
- Additional procedures as considered necessary
- Objective - sufficient appropriate audit evidence

# Key Concerns and Decision Points



FINANCIAL SERVICES



# So – Key Questions

- Timing of information
- Who will be responsible for information
- What's the basis of allocation and to how many decimal places?
- Will Plan prepare “templates” for employers with basic financial statement information / note disclosure / RSI?
- Who / When will auditing of census data take place?
- Who / When will auditing of “templates” take place?



# Key Concerns & Decision Points - Employers

- For all plans
  - Relationship between measurement date and plan year-end
  - Actuarial valuation - precision v. timeliness
  - Involvement in establishing assumptions
  - Reliance on plan actuary as management specialist
  - Qualifications of plan auditor
  - Will plan engage auditors to provide assurance on employer information?
  - Implementation concerns (timing, resources)



# Key Concerns & Decision Points - Employers

- Special funding situations (do we have them?)  
(unlikely in ND)
  - Identification
  - Handling differences of opinion
- Cost-sharing multiple-employer plans
  - Obtain amounts and disclosures for the financials
  - Evaluating accuracy of information
  - What work will my auditors need to do?



# Key Concerns & Decision Points - Auditors

- For all plans
  - Timing of information needed for audit
  - Role in evaluating actuarial assumptions
  - Need to engage auditor's specialist?
  - Will plan engage auditors to provide assurance on employer information?
  - Did plan auditors engage a specialist?
  - Qualifications of plan auditor
  - Implementation concerns (timing, resources)
  - Sufficient appropriate audit evidence for unmodified opinion?



# Key Concerns & Decision Points - Auditors

- Special funding situations (unlikely in ND)
  - Identification
  - Handling differences of opinion
- Cost-sharing multiple-employer plans
  - Who will audit collective amounts and allocation of amounts to participating employers?
  - Obtaining sufficient audit evidence on actuarial information
  - Who will test census data at participating employers?



# Talking Points to Your Decision Makers / Media

- Remember the 3 C's
  - **Consistent** messaging
  - **Concise** information (not data)
  - **Calm** not chaos
- **Talking points**
  - GASB Pension standards are for financial reporting, not overall decision-making or funding
    - But may drive changes in decisions in the future
  - Transparency in financials are increasing due to new standards
  - New financial statements reflect economic reality rather than historical cash flow
  - The plan is NOT changing solely due to new standards
  - Coordination and administration are being done very conservatively at the state level

# Town Hall Discussion



CPAs & BUSINESS ADVISORS

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

# Questions!



## Eric S. Berman, MSA, CPA, CGMA

Partner

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# Appendices



## Illustrative Notes for Pensions



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# What a Cost Sharing Employer's Notes Will Look Like for a DB Plan (could be district, city, authority etc.)



CPAs & BUSINESS ADVISORS



**Sample District  
Notes to the Financial Statements  
for the Year Ended June 30, 20X9**  
(Dollar amounts in thousands)

**Summary of Significant Accounting Policies**

*Pensions.* For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers Pension Plan (TPP) and additions to/deductions from TPP's fiduciary net position have been determined on the same basis as they are reported by TPP. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Note X**

***General Information about the Pension Plan***

*Plan description.* The District's defined benefit pension plan, Political Subdivision Pension Plan (PSPP), provides pensions for all participating political subdivisions employees of the State. PSPP is a agent-employer defined benefit pension plan administered by the State Consolidated Retirement System (SCRS). Article 2 of the *Constitution of the State* grants the authority to establish and amend the benefit terms to the SCRS Board of Trustees (SCRS Board). SCRS issues a publicly available financial report that can be obtained at <http://www.treasury.xx.gov/SCRS.pub.html>.



**Sample District  
Notes to the Financial Statements  
for the Year Ended June 30, 20X9**  
(Dollar amounts in thousands)

*Benefits provided.* PSPP provides retirement, disability, and death benefits. Retirement benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at age 60 with 5 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in performance of duty. Members joining the plan prior to July 1, 1979, are vested upon completion of 10 years of service, unless five years vesting is authorized by resolution of the chief governing body. Cost of living adjustments (COLA) are the same as provided by SCRS, except that the local government may elect (a) to provide no COLA benefits or (b) to provide COLA benefits under a noncompounding basis rather than the compounded basis applicable under SCRS.



## **Sample District Notes to the Financial Statements for the Year Ended June 30, 20X9**

(Dollar amounts in thousands)

*Contributions.* Per Article 33 of the State Statutes, contribution requirements of the active employees and the participating school districts are established and may be amended by the TRS Board. Employees are required to contribute 6.20 percent of their annual pay. The school districts' contractually required contribution rate for the year ended June 30, 20X9, was 17.32 percent of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$2,095 for the year ended June 30, 20X9.

### ***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 20X9, the District reported a liability of \$14,910 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 20X8, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At December 31, 20X8, the District's proportion was 0.20 percent, which was an increase of 0.01 from its proportion measured as of December 31, 20X7.



**Sample District  
Notes to the Financial Statements  
for the Year Ended June 30, 20X9**  
(Dollar amounts in thousands)

For the year ended June 30, 20X9, the District recognized pension expense of \$2,394. At June 30, 20X9, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 2,657	\$ 142
Changes of assumptions	1,714	130
Net difference between projected and actual earnings on pension plan investments	-	2,194
Changes in proportion and differences between District contributions and proportionate share of contributions	753	156
District contributions subsequent to the measurement date	1,065	-
Total	<u>\$ 6,189</u>	<u>\$ 2,622</u>



**Sample District  
Notes to the Financial Statements  
for the Year Ended June 30, 20X9**  
(Dollar amounts in thousands)

\$1,065 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 20Y0. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year Ended June 30:**

20Y0	\$(272)
20Y1	159
20Y2	220
20Y3	543
20Y4	553
Thereafter	1,299

*Note – optional presentation  
of this table – separate  
columns of positives and  
negatives and total column  
by year*

***Payable to the Pension Plan***

At June 30, 20X9, the District reported a payable of \$xx for the outstanding amount of contributions to the pension plan required for the year ended June 30, 20X9.



**Sample District**  
**Notes to the Financial Statements**  
**for the Year Ended June 30, 20X9**  
(Dollar amounts in thousands)

*Actuarial assumptions.* The total pension liability in the December 31, 20X8 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5%
Salary Increases	4.5% average, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the December 31, 20X8 valuation were based on the results of an actuarial experience study for the period January 1, 20X6–October 31, 20X8. As a result of the 20X8 actuarial experience study, the expectation of life after disability was adjusted in the December 31, 20X8 actuarial valuation to more closely reflect actual experience.



**Sample District**  
**Notes to the Financial Statements**  
**for the Year Ended June 30, 20X9**  
(Dollar amounts in thousands)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long Term Expected Rate of Return</b>
Domestic Equity	31%	5.4%
International Equity	21	5.6%
Fixed Income	28	1.3%
Real Estate	10	5.0%
Cash and Other	11	0.1%
<b>Total</b>	<b>100%</b>	



**Sample District  
Notes to the Financial Statements  
for the Year Ended June 30, 20X9**  
(Dollar amounts in thousands)

*Discount rate.* The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	<b>1% Decrease (6.75%)</b>	<b>Current Discount Rate 7.75%</b>	<b>1% Increase (8.75%)</b>
District's proportionate share of the Net Pension Liability	\$23,320	\$14,910	\$5,141



**Sample District  
Notes to the Financial Statements  
for the Year Ended June 30, 20X9**  
(Dollar amounts in thousands)

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued SCRS financial report.

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Additional items would be added as follows:

- Additional plans (also defined contribution plans)
- Terms and conditions of benefit changes
- Closed or open status of plan(s)
- Changes in the plan between the measurement date and reporting date (subsequent events)
- Ad Hoc COLAs (if any)
- Change in discount rate

# Required Supplementary Information – Cost Sharing Employer



(city, district, authority, etc.)



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# Required Supplementary Information – Cost Sharing Employer

	20X9	20X8	20X7	20X6	20X5
District's proportion of the net pension liability (asset)	0.20%	0.19%	0.19%	0.19%	0.20%
District's proportionate share of the net pension liability (asset)	\$ 14,910	\$ 11,738	\$ 12,972	\$ 13,495	\$ 14,892
District's covered-employee payroll	\$ 11,512	\$ 10,412	\$ 9,715	\$ 9,553	\$ 9,522
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	129.52%	112.74%	133.53%	141.26%	156.40%
Plan fiduciary net position as a percentage of the total pension liability	81.38%	83.20%	80.41%	78.53%	75.79%

Note: Only 5 years are presented here;  
10 years of information would be required



# Required Supplementary Information – Cost Sharing Employer

	<u>20X9</u>	<u>20X8</u>	<u>20X7</u>	<u>20X6</u>	<u>20X5</u>
Contractually required contribution	\$ 2,095	\$ 2,057	\$ 1,969	\$ 1,649	\$ 1,176
Contributions in relation to the contractually required contribution	<u>(2,095)</u>	<u>(2,057)</u>	<u>(1,969)</u>	<u>(1,649)</u>	<u>(1,176)</u>
Contribution deficiency (excess)	<u>\$ -</u>				
District's covered-employee payroll	\$ 12,097	\$ 10,962	\$ 10,063	\$ 9,634	\$ 9,538
Contributions as a percentage of covered-employee payroll	17.32%	18.76%	19.57%	17.11%	12.33%

Note: Only 5 years are presented here;  
10 years of information would be required



# Note to Required Supplementary Information

- *Changes of benefit terms.* Amounts reported in 20X8 reflect an increase in disability benefits to be equivalent to retirement benefits
- *Changes of assumptions.* Amounts reported in 20X9 reflect an adjustment of the expectation of life after disability to more closely reflect actual experience. For amounts reported in 20X6 and later, the expectation of retired life mortality was based on RP-2000 Mortality Tables rather than on the 1983 Group Annuity Mortality Table, which was used to determine amounts reported prior to 20X6.

## ND Teachers' Fund for Retirement/ND Public Employees Retirement System/ND State Auditor's Office

**TO:** TFFR and PERS participating employers and auditors  
State audit and fiscal personnel  
Interested stakeholder groups

**FROM:** TFFR, PERS, and State Auditor's Office

**DATE:** October 15, 2014

**SUBJ:** GASB 68 Employer Training Session

Important changes in state, municipal, and school district financial reporting will be occurring in the next year. As many of you are aware, the Governmental Accounting Standards Board (GASB) recently approved two new statements which will substantially change financial reporting of public employee pensions by state and local governments. Statement 67 replaces the financial disclosure requirements for public plans like TFFR and PERS effective for plan years beginning after June 15, 2013. Statement 68 replaces the disclosure requirements for participating employers of public plans (school districts, cities, counties, state) effective for fiscal years beginning on or after June 15, 2014. See GASB website for more information:  
[www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176163528472](http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176163528472)

TFFR and PERS have been working with the State Auditor's Office on an implementation and training plan with plan actuaries, auditors, and staff. Earlier this year we also formed a working group of TFFR and PERS participating employers and auditors to assist in this effort, and we greatly appreciate their valuable input.

TFFR, PERS, and the State Auditor's Office has scheduled a **GASB 68 Employer Training Session on Thursday, December 11, from 8:30 am – 12 noon in the Prairie Rose Rooms (Upstairs, Exhibit Hall) at the Bismarck Events Center**. This meeting is intended for representatives of TFFR and PERS participating employers including the administrator/superintendent, business/ financial manager, and financial auditor. Please invite your auditor, and any other persons who may be interested in this topic. State audit and fiscal personnel, and other interested stakeholders have also been invited.

Mr. Eric Berman, a governmental audit consultant from Eide Bailly, will present the training which will include a presentation describing the new standards, timing of implementation, actuarial/financial information to be provided by the plans, audit issues, and Q & A forum with TFFR, PERS, and State Auditor's Office representatives.

We believe this training will be very beneficial for TFFR and PERS participating employers and auditors as you implement GASB 68 into your 2015 financial statements. A meeting agenda with program details will be provided at a later date. Please plan to attend this important training session. Thank you.

<i>TFFR:</i>	<i>Fay Kopp</i>	<a href="mailto:fkopp@nd.gov">fkopp@nd.gov</a>	701-328-9885
<i>PERS:</i>	<i>Sparb Collins</i>	<a href="mailto:scollins@nd.gov">scollins@nd.gov</a>	701-328-3900
<i>State Auditor's Office:</i>	<i>Ron Tolstad</i>	<a href="mailto:rtolstad@nd.gov">rtolstad@nd.gov</a>	701-328-2243

Date

Business Manager/Financial Officer Name

Employer XYZ

Address

**Re: TFFR Employer Census Data Audit - GASB 67 & 68**

Dear Business Manager/Financial Officer:

As you are aware, the North Dakota Teachers' Fund for Retirement (TFFR) will be implementing GASB 67, Financial Reporting for Pension Plans, in its June 30, 2014 financial statements. Employers will be implementing GASB 68, Accounting and Financial Reporting for Pensions in your 2015 financial statements. In light of the new GASB pension standards, the American Institute of Certified Public Accountants (AICPA) recently issued guidance for auditing the new GASB 67 and 68 pension statements. That guidance requires plan auditors to test the completeness and accuracy of census data provided to the plan by participating employers.

Employer XYZ has been selected by the TFFR plan auditor, Clifton Larson Allen (CLA), to be included in its test sample of representative contributing employers. The following attributes for certain active employees on your Master Payroll File will be tested: Birth Date, Salary, and Service Credit/Hours.

In order to determine which active employees will be tested, CLA auditors are requesting that you upload your Master Payroll File for the fiscal year ending June 30, 2014 to its secure file transfer site by October 20, 2014. This file should include all employees, not just those reported to TFFR, and preferably in an Excel format. Instructions for completing that process are included with this letter. In the event you experience difficulties with the secure file transfer process, Ryan Altenburg, Audit Manager, [Ryan.Aaltenburg@claconnect.com](mailto:Ryan.Aaltenburg@claconnect.com), is your CLA auditor contact.

CLA auditors are requesting the following fields to be included in the master payroll file provided if they are available and/or applicable:

- Employee ID
- First and last name
- SS# - last four digits
- Date of Birth
- Date of Hire
- Gross wages - itemized if possible (i.e. contract pay, extracurricular duties, sub pay, stipends, etc.)
- All deductions
- Net Wages

If any of these fields do not apply or are not available, then CLA auditors will work with whatever information you can provide, and will follow up with you if they have questions. We do understand that each employer is unique and since a standard report cannot be expected from everyone, CLA auditors are available if you need additional clarification.

Once CLA auditors review your Master Payroll File, they will send you the list of active employees for whose attributes they will need supporting documentation. Examples of acceptable supporting documentation are:

- Birth Date
  - I-9 Documentation (ie. Copy of driver's license or passport)
  - Birth certificate
  
- Salary
  - Employee contracts
  - Negotiated agreement including salary and extra-curricular schedules
  - Human resources form showing approved pay rate
  - School board minutes or other written agreements
  
- Service Credit / Hours
  - Total hours worked in fiscal year
  - Human resources form showing date of hire
  
- ESPB Licensure

CLA auditors may perform some of the audit testing and data reconciliation onsite. If so, CLA will contact you in advance to schedule the audit fieldwork.

This audit work must be completed so TFFR can issue the *Schedule of Pension Amounts by Employer* and the *Schedule of Collective Pension Amounts*. These AICPA recommended schedules will provide employers with the information you need for your June 30, 2015 Financial Statements to be in compliance with GASB 68.

Please contact TFFR's external auditor, CliftonLarsonAllen, with any questions you may have about the TFFR Employer Census Data Audit for GASB 67 & 68. As mentioned earlier, Ryan Altenburg, Audit Manager, [Ryan.Altenburg@claconnect.com](mailto:Ryan.Altenburg@claconnect.com), is your CLA auditor contact.

Thank you for your cooperation. We greatly appreciate your assistance, and look forward to working with you to complete this required audit work as quickly and efficiently as possible.

Sincerely,

Fay Kopp  
Chief Retirement Officer/Deputy Executive Director  
ND Teachers' Fund for Retirement/ND Retirement and Investment Office

## MEMORANDUM

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

**FROM:** Rebecca Dorwart, SIB Audit Committee Chair  
Dave Hunter, Executive Director/Chief Investment Officer  
Fay Kopp, Deputy Executive Director/Chief Retirement Officer

**DATE:** October 24, 2014

**SUBJECT:** Audit Planning and Priorities

**Background:** During our last meeting, the Audit Committee agreed to postpone the development of a detailed audit work program until after the hiring of a new Supervisor of Audit Services given our stated desire to expand existing audit procedures. 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 our ability to hire a new Supervisor of Audit Services in 2014. 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.

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

RIO Management and the 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 existing TFFR pension program (including the historical focus on TFFR employer compliance audits), the rapidly expanding 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 further discussion with the Audit Committee Chair, we recommend the next six months should serve to provide a foundation for developing a detailed audit work program for the fiscal year beginning on July 1, 2015. In the interim, the RIO audit staff will continue to focus on the following three key objectives: 1) new investment and governance related audit initiatives; 2) TFFR employer compliance audits including a comprehensive risk assessment of RIO's existing audit program; and 3) GASB 67 and 68 related implementation initiatives.

**SIB AUDIT COMMITTEE ANNUAL PLANNING CALENDAR  
JULY 2014 - JUNE 2015**

JULY 2014	AUGUST 2014	SEPTEMBER 2014	OCTOBER 24, 2014	NOVEMBER 21, 2014	DECEMBER 2014
<p>TFFR Mtg. – 7/24/14 SIB Mtg. – 7/25/14</p> <ul style="list-style-type: none"> <li>SIB appoints Audit Committee</li> </ul>	<p>TFFR Mtg. – 8/22/14 SIB Mtg. – 8/22/14</p>	<p>Audit Committee moved to October</p> <p>TFFR Mtg. – 9/25/14 SIB Mtg. – 9/26/14</p>	<ul style="list-style-type: none"> <li>Election of Chair and Vice Chair.</li> <li>Plan annual agenda and meeting dates.</li> <li>Audit Activities Report.</li> <li>Audit Committee update memo to SIB</li> </ul> <p>* Meeting at 1:00 p.m. Peace Garden Room</p> <p>TFFR Mtg – 10/23/14 SIB Mtg. – 10/24/14</p>	<ul style="list-style-type: none"> <li>Presentation of fiscal 2014 financial audit report by external auditors.</li> <li>Session with external auditors.</li> <li>Audit Activities Report.</li> </ul> <p>* Meeting at 1:00 p.m. Brynhild-Haugland Room</p> <p>SIB Mtg. – 11/21/14</p>	
JANUARY 2015	FEBRUARY 27, 2015	MARCH 2015	APRIL 2015	MAY 22, 2015	JUNE 2015
<p>TFFR Mtg. - 1/22/15 SIB Mtg. - 1/23/15</p>	<ul style="list-style-type: none"> <li>Audit Activities Report.</li> <li>Session with Audit Services</li> <li>Session with RIO Management</li> </ul> <p>Meeting at 1:00 p.m. – at WSI</p> <p>TFFR Mtg. 2/26/15 SIB Mtg. - 2/27/15</p>	<p>TFFR Mtg. - 3/26/15 SIB Mtg. - 3/27/15</p>	<p>TFFR mtg. – 4/23/15 SIB Mtg. - 4/24/15</p>	<ul style="list-style-type: none"> <li>Entrance conference with external auditors.</li> <li>Audit Activities Report.</li> <li>Review and approval of fiscal 2016 audit plan.</li> </ul> <p>* Meeting at 1:00 p.m. at Peace Garden Room</p> <p>SIB Mtg. - 5/22/15</p>	<p>SIB Mtg. - 6/26/15</p>

## GASB PENSION ACCOUNTING AND REPORTING UPDATE

The Government Accounting and Standards Board (GASB) approved Statement 68 which will replace the disclosure requirements for participating employers of pension plans like TFFR and PERS. This new statement is effective for fiscal years beginning on or after June 15, 2014.

Statement 68 requires employers/school districts to report a proportionate share of the retirement plan's net pension liability and pension expense on the employer's financial statements. In many cases this amount will be material. Also the employer's Note Disclosures and Required Supplemental Information portion of the financial statements has been greatly expanded to include much more information about the pension plan.

TFFR and PERS have been working on an implementation and training plan with the State Auditor's Office, plan actuary, and plan auditors. A working group meeting was held in June and included representatives from schools, cities, counties, and the State.

*TFFR and PERS have scheduled a training opportunity for ALL employers and their auditors the morning of Thursday, December 11, 2014, in Bismarck. Please mark your calendars for this very important training and watch for additional information.*

## EMPLOYING RETIREES IN CRITICAL SHORTAGE AREAS

In addition to the "General Rule," retired teachers may also return to TFFR covered employment in an approved "Critical Shortage Area" (CSA) without losing retirement benefits. If retired prior to January 1, 2001, no waiting period is required. However, if the retirement date is after January 1, 2001, a one year waiting period is required. Only non-contracted

substitute teaching may be performed during the waiting period. The CSA exception must be requested each year by completing a [Retired Member Employment Notification form](#).

The critical shortage areas are determined each year by the Education Standards and Practices Board (ESPB). For the 2014-15 school year, **all** subject areas are deemed critical. **This is a change from prior years.**

## NEW EMPLOYER GUIDE

The updated [TFFR Employer Guide](#) is now available on our website. The Employer Guide is a valuable resource for any questions regarding TFFR reporting.

## PENSION NOTE REQUIREMENTS (GASB #25)

TFFR receives requests at the end of each fiscal year from various accounting firms requiring the dollar amount of contributions reported and paid by a school district. The information is located on the fiscal year-end Employer Summary Report provided to school districts each August. On the final page of the summary report (employer totals section), the dollar amount of the TFFR contributions reported and paid are documented.

Since this documentation is provided to the school district on a fiscal year basis, the requests will be referred to the individual school district(s).

The 2013-14 Employer Summary Report and the current GASB #25 Disclosure Statement were recently sent to all TFFR employers.

**Please review the Employer Summary Report to make sure that the correct salary was reported for each teacher. Notify TFFR if a discrepancy is found and we will work with you to correct the reporting error.**

## NEW MEMBER REPORTING REQUIREMENTS

A [Member Action form](#) must be completed when a participating employer hires a new teacher or administrator. The form is also required if you rehire a teacher after a break in employment with your school district of one year or more. This form provides TFFR with important information including the member's legal name, social security number, birth date, current mailing address, and beneficiary information. Designating a beneficiary(ies) allows the member to direct payment of survivor benefits in the event of the member's death.

This form should also be used to notify TFFR of the following:

- A change in name or address
- An update to the beneficiary designation
- Taking or returning from a leave of absence

If we don't receive the Member Action form within thirty days from the date the member is first reported to TFFR, the employer may be assessed a \$250 penalty for late reporting.

## LATE REPORTING PENALTY INFORMATION

The monthly report and payment of member and employer contributions must be mailed to TFFR by the 15<sup>th</sup> of each month following the month in which the member's salary was earned. If the 15<sup>th</sup> falls on a weekend or holiday, the report and payment are due the next business day.

State law requires TFFR to take action if an employer fails to remit the monthly report and payment by the due date. Employers that fail to remit the monthly report and/or payment by the due date, will be assessed a penalty of \$250 plus interest of one percent per month for each month the report or payment is late.

A written request from the administrator for a waiver of the \$250 penalty may be approved under limited circumstances, but the interest must be paid. TFFR may also notify the Department of Public Instruction to withhold state foundation payments until reports, payments, penalties, and interest are paid.

## TFFR FORMS

- Please submit a [Notification of School District Change form](#) if there are any changes in contact or demographic information (Examples: new superintendent or business manager; new mailing address, email, or telephone numbers)
- If you are employing a new teacher or have teachers with a change in their name or mailing address, TFFR will need a new [Member Action form](#).
- If you employ a TFFR retiree, please complete the [TFFR Retired Member Employment Notification form](#). This form must be completed each year a retiree is employed and submitted to TFFR no later than 30 days after employment begins.
- Please visit our website for other forms you may need:  
[www.nd.gov/rio/TFFR/Forms/default.htm](http://www.nd.gov/rio/TFFR/Forms/default.htm).

## REPORT CARD HIGHLIGHTS

The July 2014 edition of the [Report Card Newsletter](#) was recently published and can be viewed on our website. The newsletter contains the following highlights:

- **TFFR Legislation for Interim Study**  
Bill draft #140 contains administrative changes only.
- **Benefit Counseling Sessions**  
Please help us market this program by encouraging your teachers to attend a benefits counseling session to discuss TFFR benefits and other retirement concerns.
- **How to Read Your Benefit Statement**  
TFFR members receive an annual statement each August. The statement contains the salary and service credit reported by the employer for the prior school year.