

ND STATE INVESTMENT BOARD AUDIT COMMITTEE MEETING

Friday, September 25, 2015 – 1:00 PM
State Capitol – Fort Union Room
600 East Blvd Ave, Bismarck, ND 58505-0130

AGENDA

1. Call to Order and Approval of Agenda – Chair (committee action) (5 minutes)
2. Approval of May 21, 2015 Minutes – Chair (committee action) (5 minutes)
3. Election of Chair, Vice Chair, and Liaison – Chair (committee action) (10 minutes)
4. 2014 – 2015 Year End Audit Activities Report – Terra Miller Bowley (committee action) (20 minutes)
5. 2014 – 2015 Audit Committee Report to SIB – Terra Miller Bowley (committee action) (10 minutes)
6. 2015 – 2016 First Quarter Audit Activities Update – Terra Miller Bowley (information) (10 minutes)
7. Audit Committee Charter – Terra Miller Bowley (committee action) (20 minutes)
8. Enhanced Transparency – SIB Audit Committee Materials (information) (5 minutes)
9. Other – Next SIB Audit Committee Meeting

North Dakota State Capitol Building
November 19, 2015 at 3:00 PM
Peace Garden Room

10. Adjournment

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

STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
MAY 21, 2015, MEETING

COMMITTEE MEMBERS PRESENT: Rebecca Dorwart, Chair
Mike Gessner, TFFR Board
Mike Sandal, PERS Board
Cindy Ternes, Workforce Safety & Insurance

COMMITTEE MEMBER ABSENT: Karol Riedman, Health Dept.

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
Terra Miller Bowley, Suprv Audit Services
Shelly Schumacher, Retirement Program Manager
Dottie Thorsen, Internal Auditor

GUESTS: Thomas Rey, CliftonLarsonAllen
Jason Ostroski, CliftonLarsonAllen

CALL TO ORDER:

Ms. Dorwart called the State Investment Board (SIB) Audit Committee meeting to order at 3:00 p.m., on Thursday, May 21, 2015, 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 21, 2015, MEETING AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MS. RIEDMAN

MINUTES:

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO APPROVE THE FEBRUARY 26, 2015, MINUTES AS AMENDED.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MS. RIEDMAN

AUDIT SCOPE:

Mr. Rey reviewed the work plan for the audit of the Retirement and Investment Office's (RIO) financial statements and Teachers' Fund for Retirement (TFFR) GASB 68 schedules for the period ending June 30, 2015.

The preliminary fieldwork took place in May 2015. The census data and substantive procedures testing will take place July - September 2015 with the final audit report scheduled to be completed September/October 2015.

Mr. Rey also reviewed GASB 72, which will become effective for fiscal years beginning after June 15, 2015 (fiscal year ended June 30, 2016, for RIO). This statement will provide guidance for determining a fair value measurement for financial reporting purposes and will provide guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

Mr. Ostroski also reviewed the audit results for GASB 68 schedules (schedules of employer allocations and the schedule of pension amounts by employer) for the period ending June 30, 2014. On-site census data testing was conducted on 17 employers. An unmodified clean opinion was issued on the schedules.

Ms. Kopp thanked the staff involved in the implementation, Ms. Miller Bowley, Ms. Flanagan, and Ms. Schumacher, as well as all of the support received from CLA and Segal.

AUDIT ACTIVITIES REPORT:

Ms. Miller Bowley updated the Audit Committee on Internal Audit activities for the third quarter period of January 1, 2015 - March 31, 2015.

Employer Compliance Audit Reports - Four employer audits were completed, seven employer audits were in progress, and one not in compliance review is in progress. As of March 31, 2015, sixteen employer audits and two not in compliance reviews have been completed.

The Internal Audit Division has been working with CLA on the GASB 68 Census Data Audits. Fieldwork on 17 employers was conducted and 202 member accounts were reviewed January 19-30, 2015. The audits were completed and two corrections were required.

At the request of CLA, the Internal Audit Division in conjunction with the Fiscal/Investment Operations Division also contacted thirty-three employers and requested confirmation of TFFR contributions for the fiscal year ending June 30, 2014.

File Maintenance Audit Report - The TFFR File Maintenance Audit was also completed and no exceptions were noted.

Annual Salary Verification Project - The Internal Audit Division assisted the Retirement Division in verifying salaries reported to TFFR for prior fiscal years 2012-13 and 2013-14 by participating employers. Five member accounts required corrections. Going forward, the Internal Audit Division will conduct the audit.

Executive Limitations - The Internal Audit Division also completed the Executive Limitations audit for the period of January 1, 2014, through December 31, 2014. The audit concluded the Executive Director/CIO is in compliance with the Executive Limitations policies A-1 through A-11.

Audit Services also conducted an agency wide survey of employees. The survey provided employees the opportunity to evaluate their immediate supervisor as well as other members of the management staff.

TFFR Cost Effective Benefit Payments - The Internal Audit Division was also asked by the Executive Director/CIO to verify that TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner. The audit is expected to be completed by June 2015.

Professional Development - The Supervisor of the Internal Audit Division will begin to pursue a Certified Internal Auditor designation. The Internal Audit Division also reinstated its membership with The Institute of Internal Auditors in October 2014, and attend the local chapter meetings.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO ACCEPT THE THIRD QUARTER AUDIT REPORT.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MS. RIEDMAN

Ms. Miller Bowley updated the Audit Committee on audit services activities for the period of April 1, 2015, through May 15, 2015.

As of May 15, 2015, four employer audits have been completed; seven audits are in progress, and one not in compliance is in progress. Four employer audits are pending. Year to date, a total of twenty employer audits have been completed and two not in compliance reviews have been completed.

GOVERNMENT FINANCE OFFICERS ASSOCIATION -

The Government Finance Officers Association (GFOA) has awarded RIO a Certificate of Achievement for Excellence in Financial Reporting for its Comprehensive Annual Financial Report for the year ended June 30, 2014. This marks the 17th consecutive year that the agency has received the designation.

The Audit Committee requested staff issue a news release regarding the GFOA award.

WORK PLAN:

Ms. Miller Bowley reviewed a proposed work plan for the Internal Audit Division for the period of July 1, 2015 - June 30, 2016.

The Audit Committee also received a breakdown of the budgeted hours for the period of July 1, 2015 - June 30, 2016, for the Internal Audit Division.

The Audit Committee was also provided a risk assessment for participating employers for the period of July 1, 2015 - June 30, 2016.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE WORK PLAN FOR THE PERIOD OF JULY 1, 2015 - JUNE 30, 2016.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MS. RIEDMAN

MEETING SCHEDULE:

Ms. Miller Bowley distributed the 2015-16 Audit Committee meeting schedule.

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE MEETING SCHEDULE FOR THE PERIOD OF JULY 1, 2015 - JUNE 30, 2016.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MS. RIEDMAN

OTHER:

The next Audit Committee meeting is scheduled for September 25, 2015, at 1:00 p.m. at the State Capitol, Peace Garden Room, Bismarck ND.

ADJOURNMENT:

With no further business to come before the Audit Committee, Ms. Dorwart adjourned the meeting at 4:25 p.m.

Respectfully Submitted:

Ms. Rebecca Dorwart, Chair
SIB Audit Committee

Bonnie Heit
Assistant to the Audit Committee

**RETIREMENT AND INVESTMENT OFFICE
AUDIT SERVICES
2014 – 2015 Year End Audit Activities Report
July 1, 2014 – June 30, 2015**

The audit objective of Audit Services 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.

The SIB Audit Committee opted to postpone development of a detailed audit work program for Fiscal Year July 1, 2014 through June 30, 2015. The SIB Audit Committee did provide guidance related to audit activities and planning for Fiscal Year July 1, 2014 through June 30, 2015. The audit activities undertaken are consistent with the Audit Services 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.

Retirement Program Audit Activities

• **TFFR Compliance Audits and Not In Compliance (NIC) Reviews**

We examine employer reporting to the Teachers' Fund for Retirement (TFFR) to determine whether retirement salaries and contributions reported for members of TFFR are in compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). Other reporting procedures reviewed during the audit process are calculation of service hours and eligibility for TFFR membership. A written report is issued after each audit examination is completed.

At the conclusion of the 2014-2015 fiscal year a total of thirty-one employers had been notified of either an upcoming TFFR Compliance Audit or NIC Review. Twenty-four employer audits were completed including twenty-two TFFR Compliance Audits and two NIC Reviews. Of the twenty-four employer audits completed twenty-two employers were found to be in compliance or generally in compliance while two employers were ultimately found not in compliance. Eight TFFR employer audits were in progress including seven TFFR Compliance Audits and one NIC Review. Seven TFFR Compliance Audits were pending but not yet started. As of June 30, 2015 twenty-two employers had yet to be audited in the third audit cycle.

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

• **TFFR File Maintenance Audits**

Audit Services tests changes made to TFFR member account data by RIO employees on a quarterly basis. Audit tables are generated and stored indicating any file maintenance changes made to member accounts. In fiscal year 2014-2015 four TFFR File Maintenance Audits were completed and no exceptions were noted.

• **Benefits Payments Audit**

A review of deaths, purchases of service, refunds, long outstanding checks, and long term annuitants was completed to determine that established policy and procedures were being followed by the staff of Retirement Services. The 2013-2014 Benefit Payments Audit was completed in August 2014 and no exceptions were noted. The 2014-2015 Benefit Payments Audit will commence in August 2015 with results being reported in the First Quarter Audit Activities Report in September 2015.

• **Annual Salary Verification Project**

The accurate reporting of salary and contributions to TFFR by participating employers is vital to the administration of retirement benefits. On an annual basis during the third quarter Audit Services will verify salaries and contributions reported to TFFR for the prior fiscal year for fifty randomly selected member accounts. The Annual Salary Verification Project was completed in January 2015 and ultimately five member accounts were corrected as a result of these efforts.

- **TFFR Benefit Payment Cost Efficiency Review**

Audit Services was asked to verify if retirement benefits are being paid at TFFR on a cost effective basis according to the *Ends* policy in the SIB Governance Manual which supports one of the RIO's overall missions which is to ensure that TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner. This review was completed in June 2015. Audit Services found that retirement benefits are being paid at TFFR on a cost effective basis. RIO's overall mission of ensuring that TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner is also being met.

Administrative and Investment Audit Activities

- **Annual Audit Planning**

Annual audit planning for fiscal year 2015-2016 was completed in April 2015. The audit plan for the upcoming fiscal year was presented to the SIB Audit Committee in May 2015 and approved.

- **External Audit Support**

Audit Services provides support to our external audit partners, CliftonLarsonAllen (CLA), prior to, during, and after the annual financial audit of the RIO. In fiscal year 2014-2015 Audit Services assisted by notifying thirteen employers of upcoming GASB 68 Census Data Audits. GASB 68 Census Data Audit fieldwork was completed by CLA auditors in late January 2015. Audit Services provided in office support to CLA field auditors. A total of 202 member accounts were reviewed and two member accounts required corrections. CLA also requested the Fiscal and Investment Operations Manager in cooperation with Audit Services contact thirty-three employers and request confirmation of TFFR contributions for the fiscal year ending June 30, 2014. Preparation for the upcoming annual financial audit of the RIO was completed in May 2015.

- **Executive Limitation Audit**

Audit Services completed the Executive Limitation Audit for the calendar year beginning January 1, 2014 and ending December 31, 2014. The purpose of the audit was to determine the Executive Director/CIO's level of compliance with SIB Governance Manual Executive Limitation polices (A-1 through A-11). Audit Services is sufficiently satisfied that the Executive Director/CIO is in compliance with the SIB Governance Manual Executive Limitation polices A-1 through A-11 for the calendar year ending December 31, 2014.

In conjunction with the Executive Limitation Audit, Audit Services facilitated two organization wide surveys of employees in December 2014 and January 2015. The purpose of the surveys was to provide employees the opportunity to evaluate the Executive Director/CIO as well as their immediate supervisors and other members of the management staff. Employees were also asked to generate ideas related to improving organizational communication, productivity, morale and/or efficiency.

- **Executive Limitation A-2 – Staff Relations**

The SIB Governance Manual Executive Limitation policy A-2 requires that staff upon termination of employment with the RIO be provided the opportunity to complete an employment questionnaire and exit interview with the Supervisor of Audit Services. During the fiscal year ended June 30, 2015 two employees voluntarily terminated their employment with the RIO. Exit interviews were conducted with both employees and a questionnaire was completed during the course of these interviews.

Professional Development Activities

Audit Services reinstated its membership with The Institute of Internal Auditors (IIA) in October 2014. Audit Services has since pursued networking and professional development opportunities via the IIA's local chapter, Central Nodak. A professional development plan was approved for the Supervisor of Audit Services in January 2015. The Supervisor of Audit Services will pursue a Certified Internal Auditor (CIA) professional designation.

Summary

Audit effort was directed to activities that are of greatest concern to the SIB Audit Committee, RIO Management, and our external audit partners. Audit Services will continue to work closely with the SIB Audit Committee, RIO Management, and our external audit partners to continue to improve overall efficiency, effectiveness, and economy of total audit activity.

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
TFFR EMPLOYER AUDIT PROGRESS AND STATUS REPORT
THIRD AUDIT CYCLE**

FISCAL YEAR JULY 1, 2015 - JUNE 30, 2016

	Size	Auditor	School District	Anticipated Notification Timeframe	100% or On-site	Info Request	Info Received	Audit Started	Report Date	Corrections to Retirement Services	Invoice/Check Received from Retirement Services	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	Days w/Retirement Services	Audit Findings	Hours to Complete
1		DT	South Heart School (New Admin 08/14)			5/28/2014	6/9/2014	6/19/2014	8/6/2014	7/21/2014	7/30/2014	Complete	31	12	58	10	48	9	Generally In Compliance	54
2		DT	Grand Forks - fiscal agent for the Red River Valley Ed. Cooperative			6/18/2013	7/22/2013	3/10/2014	9/10/2014	8/17/2014	9/4/2014	Complete	802	34	415	231	184	18	Generally In Compliance	157
3		DT	Flasher			2/18/2014	3/17/2014	5/29/2014	9/10/2014	8/26/2014	9/5/2014	Complete	22	27	177	73	104	10	Generally In Compliance	61
4		DT	Lake Region Spec Ed (New Admin 06/14)			5/28/2014	6/12/2014	9/16/2014	10/10/2014	N/A	N/A	Complete	29	15	120	96	24	N/A	In Compliance	27
5		DT	Oliver-Mercer Spec Ed			5/28/2014	6/26/2014	9/23/2014	12/8/2014	11/20/2014	12/1/2014	Complete	19	29	165	89	76	11	Generally In Compliance	87
6		TMB	Nesson (New Admin 06/14)			5/28/2014	6/13/2014	10/20/2014	12/9/2014	12/1/2014	12/8/2014	Complete	25	16	179	129	50	7	Generally In Compliance	35
7		TMB	Mayville-Portland C-G			9/16/2014	10/17/2014	12/2/2014	12/29/2014	N/A	N/A	Complete	49	31	73	46	27	N/A	In Compliance	22
8		TMB	Edmore			9/16/2014	11/3/2014	12/19/2014	1/26/2015	1/16/2015	1/23/2015	Complete	16	48	84	46	38	7	Generally In Compliance	36
9		TMB	Wolford			9/16/2014	10/16/2014	11/24/2014	1/21/2015	N/A	N/A	Complete	12	30	97	39	58	N/A	In Compliance	30
10	S	TMB	Page	November 2014		11/13/2014	12/15/2014	1/5/2015	2/3/2015	N/A	N/A	Complete	16	32	50	21	29	N/A	In Compliance	21
11		DT	Devil's Lake	September 2014		9/16/2014	10/13/2014	12/29/2014	3/5/2015	2/20/2015	3/4/2015	Complete	173	27	143	77	66	12	Generally In Compliance	86
12	S	TMB	Hazelton-Moffitt School** (New Bus Mgr/Admin 06/14)	May 2014		5/28/2014	6/18/2014	2/3/2015	3/6/2015	3/2/2015	3/6/2015	Complete	18	21	261	230	31	4	Generally In Compliance	16
13	M	TMB	North Border School District	November 2014		11/13/2014	12/19/2014	1/26/2015	3/19/2015	3/18/2015	3/19/2015	Complete	75	36	90	38	52	1	In Compliance	26
14		DT	Mohall/Lansford/Sherwood (New Bus Mgr)	April 2014		4/23/2014	5/27/2014	12/10/2014	3/20/2015	N/A	N/A	Complete	42	34	297	197	100	N/A	In Compliance	59
15	S	DT	Montpelior	December 2014		12/29/2014	1/26/2015	3/6/2015	3/27/2015	3/23/2015	3/26/2015	Complete	27	28	60	39	21	3	In Compliance	25
16	S	TMB	Selfridge	November 2014		11/13/2014	12/30/2014	2/19/2015	3/27/2015	N/A	N/A	Complete	23	47	87	51	36	N/A	In Compliance	17
17	S	DT	Munich	November 2014		11/13/2014	1/2/2015	2/27/2015	4/1/2015	3/31/2015	3/31/2015	Complete	32	50	89	56	33	0	In Compliance	41
18	S	TMB	Kensal	December 2014		12/29/2014	2/5/2015	3/11/2015	4/16/2015	N/A	N/A	Complete	21	38	70	34	36	N/A	In Compliance	14
19	M	TMB	Lewis & Clark School	December 2014		12/29/2014	2/10/2015	3/19/2015	5/1/2015	N/A	N/A	Complete	63	43	80	37	43	N/A	In Compliance	21
20	S	DT	South Prairie Elementary	November 2014		11/13/2014	12/23/2014	1/14/2015	5/13/2015	4/30/2015	5/11/2015	Complete	40	40	141	22	119	11	In Compliance	61
21	S	DT	Sheyenne Valley Area Vocation***	December 2014		12/29/2014	3/2/2015	5/7/2015	6/2/2015	N/A	N/A	Complete	11	63	92	66	26	N/A	In Compliance	28
22	S	DT	Glen Ullin**	May 2014		5/28/2014	7/10/2014	2/12/2015	6/11/2015	6/2/2015	6/4/2015	Complete	24	43	336	217	119	2	Not In Compliance	122

END FISCAL YEAR 2014-2015

23	S	TMB	Emerado	March 2015		3/30/2015	4/20/2015	5/5/2015	7/20/2015	7/10/2015	7/17/2015	Complete	22	21	91	15	76	7	Generally In Compliance	40
24	S	TMB	Billings Co. Sch. District****	September 2014		9/16/2014	10/23/2014	12/8/2014	8/18/2015	7/29/2015	8/12/2015	Complete	18	37	299	46	253	14	Generally In Compliance	62
25	S	TMB	James River Multidistrict	May 2015		5/26/2015	6/23/2015	6/24/2015	8/18/2015	N/A	N/A	Complete	20	28	56	1	55	N/A	In Compliance	35
26	S	TMB	New Public School (Williston) (New Admin 06/14)	June 2015		6/25/2015	6/26/2015	7/20/2015	8/26/2015	8/12/2015	8/21/2015	Complete	57	1	61	24	37	9	In Compliance	20
27	L	TMB	Dickinson	March 2015		3/30/2015	4/2/2015	4/28/2015	8/26/2015	8/12/2015	8/21/2015	Complete	332	3	146	26	120	9	Generally In Compliance	77
28	L	TMB	Fargo	December 2014		12/29/2014	2/4/2015	2/25/2015				In Progress	1333	37		21				
29	L	DT	West Fargo	November 2014		11/13/2014	12/31/2014	3/23/2015				In Progress	875	48		82				
30	S	DT	Ft. Totten	December 2014		12/29/2014	1/30/2015	5/27/2015				In Progress	36	32		117				
31	S	DT	Southeast Region Career and Tech	March 2015		3/30/2015	4/23/2015	7/6/2015				In Progress	32	24		74				
32	S	TMB	Kulm	May 2015		5/26/2015	6/29/2015	8/14/2015				In Progress	22	34		46				
37	S	TMB	Maple Valley (New Bus Mgr 06/14 & Admin 09/14)	June 2015		6/10/2015	7/16/2015	8/17/2015				In Progress	38	36		32				
33	S	DT	North Valley Area Careers	March 2015		3/30/2015	4/27/2015	8/31/2015				In Progress	12	28		126				
34	M	DT	Wilmac Special Education (Temp Bus Mgr 08/14)	May 2015		4/15/2015	5/13/2015					Pending	58	28		126				
35	S	DT	Litchville-Marion	June 2015		6/10/2015	6/26/2015					Pending	28	16						
36	S	DT	Fordville-Lankin	June 2015		5/26/2015	6/26/2015					Pending	12	31						
42	S	DT	Warwick	September 2015		9/3/2015														
44	S	DT	Wing (New Admin 10/14)	September 2015		9/3/2015														
39	S	DT	Parshall	September 2015		9/4/2015														
41	M	TMB	St John	September 2015		9/4/2015														
40	S	TMB	Solen-Cannonball	September 2015		9/4/2015														
43	S	TMB	White Shield (Roseglen) (New Admin 09/14)	September 2015		9/4/2015														
38	S	TMB	Starkweather (Master Payroll File)	September 2015																

Average: 193 27 131 57 108 8 47

YTD Assigned			Total Audit Days		Average Audit Days	Audits Completed	Total Hours	Average Hrs		Actual Audit Days
10		DT			#DIV/0!	0	0	#DIV/0!		#DIV/0!
12		TMB	68		14	5	233	47		5.8

NOT IN COMPLIANCE (NIC) REVIEWS

	Size	Auditor	School District	100% or On-site	Info Request	Info Received	Review Started	Report Date	Corrections to Retirement Services	Invoice/Check Received from Retirement Services	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	Days w/Retirement Services	Audit Findings	Hours to Complete
1	S	TMB	Halliday		2/26/2015	3/4/2015	N/A	N/A	N/A	N/A	N/A	11	N/A	N/A	N/A	N/A	N/A	See Explanation Below	N/A
2	S	DT	McClusky		12/11/2014	12/23/2014	1/26/2015	3/12/2015	N/A	N/A	Complete	18	12	79	34	45	N/A	In Compliance	36
5	L	DT	Williston		1/7/2014	1/29/2014	4/14/2014	1/29/2015	1/14/2015	1/22/2015	Complete	217	22	365	75	290	8	Not In Compliance	130
3	S		Ft. Yates																

TFFR Compliance Audit Scheduled for 2015-2016

END FISCAL YEAR 2014-2015

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
TFFR EMPLOYER AUDIT PROGRESS AND STATUS REPORT
THIRD AUDIT CYCLE**

FISCAL YEAR JULY 1, 2015 - JUNE 30, 2016

	Size	Auditor	School District	Anticipated Notification Timeframe	100% or On-site	Info Request	Info Received	Audit Started	Report Date	Corrections to Retirement Services	Invoice/Check Received from Retirement Services	Status	Members	Days b/w Info Request and Received	Days b/w Info Received and Report	Days b/w Info Received and Start Date	Days b/w Start and Report	Days w/Retirement Services	Audit Findings	Hours to Complete
4	S	TMB	Minnewaukan			3/3/2015	3/25/2015	3/27/2015	8/11/2015	7/16/2015	8/10/2015	Complete	36	22	139	2	137	25	Not In Compliance	43

Average: 36

****Due to multiple errors discovered during audit process and multiple years of salary which will require corrections staff feels it is best to close 2014-2015 and then process any and all corrections.

Halliday NIC Review - Original TFFR Compliance Audit occurred during fiscal year ended June 30, 2011, six findings were noted. First NIC review completed during fiscal year ended June 30, 2013, 100% of District members were included in sample, failure to report in-staff sub pay continued to occur, District was found not in compliance a second time. Second NIC review was initiated during fiscal year ended June 30, 2015, request was made for itemized payroll and contracts for all members who received in-staff sub pay in 2013-2014. District indicated that the practice of receiving in-staff sub pay was discontinued at the District on July 1, 2013 and has been replaced by a "Gentleman's Agreement" between teachers. After discussions with staff the NIC review will not be pursued and Halliday will be placed into the next audit cycle as usual.

TFFR COMPLIANCE AUDITS

July 1, 2014 through June 30, 2015

	EMPLOYERS	FISCAL YEARS	MEMBERS	REPORT DATE	EMPLOYER CONTRIB'S DR(CR)	MEMBER'S SALARIES ADJUSTED	MEMBER SERVICE CREDIT ADJUSTED	STATUS
✓	Audits completed (22)				In compliance		14	
✓	NIC reviews completed (2)				Generally in compliance		8	
					Not in compliance		2	
							<u>24</u>	
	Audits carried over from 2013/14 year (9)							
	NIC audits carried over from 2013/14 year (1)							
	Audit notifications sent 2014/15 (28)							
	NIC notifications sent 2014/15 (2)							
	Audits carried over to 2015/16 (14)							
	NIC audits moved to a date in the future (2)							
Carry forward from 2013/14								
1	✓ DT Flasher	6/30/13, 12	22	9/10/2014	(1,897.64)	7	0	Generally in compliance Did not report eligible game supervision salary; reported ineligible cash for a fringe benefit-programming error; and did not have written agreements for summer salary.
2	✓ DT Glen Ullin (GASB)	6/30/13, 12	24	6/11/2015	8,558.03	10	0	Not in compliance The District did not report eligible extra-curricular salary; reported ineligible salary; reported subbing without a written agreement; did not issue written agreements for summer salary; and did not have procedures for monitoring the hours for retired teachers who had returned to teach.
3	✓ DT Grand Forks/ and fiscal agent for Red River Valley Education Cooperative	6/30/12, 11	789	9/10/2014	(2,637.36)	9	5	Generally in compliance Reported summer salary in the wrong fiscal year; did not report eligible salary- coaching and health committee; reported ineligible announcing salary; no written agreements for summer salary; and reported service hours incorrectly.
4	✓ TMB Hazelton-Moffit (GASB)	6/30/13, 12	18	3/6/2015	(384.71)	1	1	Generally in compliance District did not report eligible in-staff subbing and contract salary; reported service hours incorrectly; and did not have written agreements for summer salary.
5	✓ DT Lake Region Spec. Education	6/30/13, 12	29	10/10/2014	0.00	0	1	In compliance Reported service hours for part-time member incorrectly (isolated error).
6	✓ DT Mohall/Lansford/Sherwood	6/30/13, 12	41	3/20/2015	0.00	0	0	In compliance Did not have the proper documentation to support salary and service hours reported for a retired member who had returned to teach.
7	✓ TMB Nesson	6/30/13, 12	25	12/9/2014	615.24	1	1	Generally in compliance The District did not report accompanist salary; ineligible bus driver training was reported; service hours was incorrect; and there was no written agreement for summer salary.

North Dakota Retirement and Investment Office
 Audit Services

TFFR COMPLIANCE AUDITS

July 1, 2014 through June 30, 2015

	EMPLOYERS	FISCAL YEARS	MEMBERS	REPORT DATE	EMPLOYER CONTRIB'S DR(CR)	MEMBER'S SALARIES ADJUSTED	MEMBER SERVICE CREDIT ADJUSTED	STATUS
✓	Audits completed (22)				In compliance		14	
✓	NIC reviews completed (2)				Generally in compliance		8	
					Not in compliance		2	
							24	
8	✓ DT Oliver-Mercer Spec. Education	6/30/13, 12	19	12/8/2014	686.03	3	3	Generally in compliance Did not report eligible annual national certification bonus; reported immaterial amounts of extended school year salary in the wrong fiscal year; and reported service hours incorrectly for part-time members.
9	✓ DT South Heart	6/30/13, 12	31	8/6/2014	1,636.13	6	0	Generally in compliance Reported ineligible meal reimbursement salary; and software programming error in reporting retirement salary.
	Notifications 2014/15							
10	✓ DT Devils Lake/ and fiscal agent for Northeast Educational Cooperative	6/30/14, 13	173	3/5/2015	(10,758.62)	5	1	Generally in compliance The District reported ineligible Harmony House salary; did not issue written agreements for summer salary; and reported service hours incorrectly.
11	✓ TMB Edmore	6/30/14, 13	16	1/26/2015	1,017.83	8	1	Generally in compliance The District did not report eligible in-staff subbing; reported salary without a written agreement; and reported service hours incorrectly.
12	✓ TMB Kensal	6/30/14, 13	21	4/16/2015	0.00	0	0	In compliance Reported service hours incorrectly for one member-no correction.
13	✓ TMB Lewis and Clark	6/30/14, 13	63	5/1/2015	0.00	0	0	In compliance No exceptions were noted.
14	✓ TMB Mayville-Portland C-G	6/30/14, 13	49	12/30/2014	0.00	0	0	In compliance No exceptions noted.
15	✓ DT Montpelior	6/30/14, 13	27	3/27/2015	0.00	1	0	In compliance The District reported salary in the wrong fiscal year.
16	✓ DT Munich	6/30/2014, 13	18	4/1/2015	0.00	0	1	In compliance The District reported ineligible bus salary (isolated occurrence); also reported service hours wrong (isolated occurrence).

North Dakota Retirement and Investment Office
Audit Services

TFFR COMPLIANCE AUDITS

July 1, 2014 through June 30, 2015

	EMPLOYERS	FISCAL YEARS	MEMBERS	REPORT DATE	EMPLOYER CONTRIB'S DR(CR)	MEMBER'S SALARIES ADJUSTED	MEMBER SERVICE CREDIT ADJUSTED	STATUS
✓	Audits completed (22)						14	In compliance
✓	NIC reviews completed (2)						8	Generally in compliance
							2	Not in compliance
							<u>24</u>	
17	✓ TMB North Border	6/30/2014, 13	54	3/20/2015	0.00	0	1	In compliance The District did not have summer agreement for one teacher; addendums were not issued for contract changes; reported service hours incorrectly for one member.
18	✓ TMB Page	6/30/2014, 13	13	2/2/2015	0.00	0	0	In compliance Did not report eligible book study salary.
19	✓ TMB Selfridge	6/30/2014, 13	16	3/20/2015	0.00	0	0	In compliance District did not report in-staff subbing (isolated occurrence).
20	✓ DT Sheyenne Valley Career and Tech.	6/30/2014, 13	11	6/2/2015	0.00	0	0	In compliance No exceptions noted.
21	✓ DT South Prairie Elementary	6/30/2014, 13	25	5/13/2015	(83.30)	1	0	In compliance The District reported salary in the wrong fiscal year-isolated; reported bus and driving salary-isolated; and did not have written agreement for summer salary-isolated.
22	✓ TMB Wolford	6/30/14, 13	11	1/23/2015	0.00	0	0	In compliance Reported ineligible subbing (isolated occurrence); and service hours error
	Totals		<u>1,495</u>		<u>(3,248.37)</u>	<u>52</u>	<u>15</u>	
Not in compliance reviews								
	DT Fort Yates	We will wait to complete a full-scale audit at the start of the 4th cycle.						
	TMB Halliday (second check)	Supervisor of Internal audit talked with the Superintendent. The only error the District had not corrected was reporting in-staff subbing. The new Superintendent stated the District had eliminated this salary; therefore, no review was necessary.						
23	✓ DT McClusky	6/20/2014	18	3/12/2015	0.00	0	0	In compliance The District had an isolated error in reporting subbing.
24	✓ DT Williston	6/30/2013	217	1/29/2015	4,909.93	4	11	Not in compliance Summer salary reported in the wrong fiscal year; no written agreements for summer salary; ineligible member reported; incorrect salary reported due to programming error; and service hours for part-time members reported incorrectly.
			<u>1,730</u>		<u>1,661.56</u>	<u>56</u>	<u>26</u>	

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

Total Members served in the third audit cycle	10,138
Total Audits completed in the third audit cycle	151
Audits in progress	9
Remaining Employers to be audited	13 (added two vocational schools)
Total Audits in the third cycle	<u>173</u>
Not in compliance reviews	<u>10</u>
Years into the Cycle	5.5 years

In compliance	120
Generally in compliance	19
Not in compliance	<u>12</u>
	151

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

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

18	697 Teachers
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FISCAL YEAR 2010/ 2011 (full year)

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

14	1,123
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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	NIC review	1
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		
	30	1,425			

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

FISCAL YEAR 2012/ 2013 (full year)

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

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

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	NIC reviews	3
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		
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	In compliance		
Wishek	9/23/2013	21	In compliance		
Wyndemere	9/30/2013	29	In compliance		
Zeeland	5/28/2014	12	In compliance		
		<u>754</u>			

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

22	754
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FISCAL YEAR 2014/ 2015 (full year) fully staffed 8 months

Devils Lake/fiscal agent for Northeast Educational Cooperative	3/5/2015	173	Generally in compliance
Edmore	1/26/2015	16	Generally in compliance
Flasher	9/10/2014	22	Generally in compliance
Glen Ullin (also GASB)	6/11/2015	24	Not in compliance

Grand Forks/	9/10/2014	789	Generally in compliance		
Red River Ed. Coop	6/11/2015				
Hazleton-Moffit (also GASB)	3/6/2015	18	Generally in compliance		
Kensal	4/16/2015	21	In compliance	I/C	13
Lake Region Special Education	10/10/2014	29	In compliance	GIC	8
Lewis and Clark	5/1/2015	63	In compliance	NIC	1
Mayville-Portland C-G	12/30/2014	49	In compliance	Audits	22
Mohall/Lansford/Sherwood	3/20/2015	41	In compliance	NIC reviews	2
Montpelior	3/27/2015	27	In compliance		
Munich	4/1/2015	18	In compliance		
Nesson	12/9/2014	25	Generally in compliance		
North Border	3/20/2015	54	In compliance		
Oliver-Mercer Special Education	12/8/2014	19	Generally in compliance		
Page	2/2/2015	13	In compliance		
Selfridge	3/20/2015	16	In compliance		
Sheyenne Valley Area Vocation	6/2/2015	11	In compliance		
South Heart	8/6/2014	31	Generally in compliance		
South Prairie Elementary	5/13/2015	25	In compliance		
Wolford	1/23/2015	11	In compliance		
	22	1,495			

Not in compliance reviews:

Fort Yates	Will conduct a full audit at the beginning of the 4th Cycle		
Halliday (second check)	No audit needed-Superintendent stated they no longer have teachers in-staff subbing.		
McClusky	3/12/2015	18	In compliance
Williston	2/3/2015	217	Not in compliance

1,730

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE AUDIT DIVISION
AUDIT SERVICES
BUDGETED VS. ACTUAL HOURS
FISCAL YEAR JULY 1, 2014 TO JUNE 30, 2015**

2014-15	YTD		1ST QTR	2ND QTR	3RD QTR	4TH QTR
BUDGET	HOURS	UNDER/ HOURS	HOURS	HOURS	HOURS	HOURS
(2 FTE'S)	7/1/2014 - 6/30/2015	(OVER) BUDGET	7/1/2014 - 9/30/2014	10/1/2014 - 12/31/2014	1/1/2015 - 3/31/2015	4/1/2015 - 6/30/2015

1. Audit

Employer Audits: TFFR

School District Audits	1282.00	175.00	254.00	427.50	425.50
Follow-up On "Not-In-Compliance" Previous Audits	167.00	29.50	55.00	69.50	13.00
Audit Planning and Notifications	169.75	39.50	40.75	52.75	36.75

Agency Audits: TFFR

Benefit Payments (Deaths, Long-Term Annuitants, Outstanding Checks, Purchases, and Refunds)	70.25	68.25	0.00	0.00	2.00
TFFR File Maintenance	77.25	19.50	21.75	18.50	17.50

Agency Administrative/Investment Audits:

Executive Limitations	152.50	0.00	94.50	49.25	8.75
Investment Audits	0.00	0.00	0.00	0.00	0.00
RIO External Audit - GASB 67 and 68, RFP Process, External Audit, etc.	47.75	7.75	19.50	14.50	6.00
Special Project - <i>Annual Salary Verficiation</i>	73.00	0.00	0.00	73.00	0.00
Special Project - <i>TFFR Cost Effective Benefit Payments</i>	106.75	0.00	0.00	3.00	103.75

Total Audit Hours	2146.25	339.50	485.50	708.00	613.25
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2. Administrative

Administrative - Staff Mtgs, Time Reports, Email, Records Retention, General Reporting	403.95	84.50	61.25	108.50	149.70
Audit Committee/SIB/TFFR Attendance and Preparation	214.50	0.00	83.25	70.75	60.50
Professional Development/CE/General Education	100.00	0.00	28.75	6.75	64.50

Total Administrative Hours	718.45	84.50	173.25	186.00	274.70
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3. Audit Training - Supervisor of Audit Services	155.50	0.00	150.75	4.75	0.00
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4. Annual/Sick Leave, Breaks, and Holidays	571.25	104.50	185.50	127.50	153.75
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Total Budget Hours	101%	3,555	3,591.45	528.50	995.00	1026.25	1041.70
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Note: Audit Supervisor Started 10/13/2014 - Additional hours have been added to the 2014-2015 Budget Hours to reflect additional staff member.

Total Budget Hours for 2014/15	3,555
Budget Hours for D. Thorsen	2,080
Budget Hours for T. Miller Bowley	1,475

Audit Services – North Dakota Retirement and Investment Office

TFFR Benefit Payment Cost Efficiency Review

Final Audit Report

June 23, 2015

Background

The Audit Services Division of the Retirement and Investment Office (RIO) conducted a review to verify retirement benefits are being paid at the Teachers' Fund for Retirement (TFFR) on a cost effective basis according to the *Ends* policy in the State Investment Board (SIB) Governance Manual. One of the missions of RIO is to ensure that TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner. This review was conducted per the request of the Executive Director/CIO.

Results Summary

Audit Services found that benefits are being paid at TFFR on a cost effective basis according to the *Ends* policy in the SIB Governance Manual. RIO's overall mission of ensuring that TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner is also being met.

Scope

Audit work commenced in March 2015 and concluded in June 2015. Audit work encompassed three phases:

- Phase I – Identify and Document Key Retirement Process(es)
- Phase II – Sample Selection and Testing
- Phase III – Analysis of TFFR Financial Metrics and Member Feedback

Observations, Conclusions and Recommendations

Observations, Conclusions and Recommendations Phase I

The Presumptive Retirement Process and the Recalculation of Benefit Process have been identified as the two critical retirement processes. These processes are responsible for the initial processing of retirement benefits and the recalculation of retirement benefits following the close of the fiscal year. A review of both processes indicates efficiency in operations.

Individual members are counseled to notify TFFR of their intent to retire from covered employment 90 calendar days (65 business days) prior to their desired retirement date, the date on which retirement benefit payments are to begin. Upon receipt of this notification, TFFR initiates the Presumptive Retirement Process which estimates final salary and service hours and issues the first retirement benefit payments based on these estimated amounts. The initial retirement benefit payment is to commence on the desired retirement date provided by the individual members.

A majority of the time members are failing to notify TFFR of their intent to retire from covered employment 90 calendar days (65 business days) prior to their desired retirement date. For the 25 member accounts tested:

- 18 out of the 25 member accounts sampled notified TFFR less than 90 calendar days (65 business days) prior to their desired retirement date.

- Members notified TFFR of their intent to retire an average of 43 business days prior to their desired retirement date.
- TFFR requires on average 44 business days to complete the Presumptive Retirement Process.

Retirement Services counsels perspective retirees on the need to notify TFFR of their intent to retire from covered employment at least 90 calendar days (65 business days) prior to their desired retirement date. The purpose of this request is to ensure that Retirement Services has adequate time to complete the Presumptive Retirement Process. If delays occur, retirement benefits will be paid retroactively to the retirement date desired by the member.

Finding #1: Members are not notifying TFFR of their intent to retire in a timely manner. Retirement Services staff and the overall efficiency and flexibility of the Presumptive Retirement Process greatly benefits from members providing timely notice of retirement.

Recommendation #1: Audit Services recommends Retirement Services evaluate current communication methods and consider the use of different methods or tactics to improve the timeliness of member retirement notifications.

Management Response Recommendation #1:

Retirement Services concurs with this recommendation and will continue to evaluate communication methods as part of our ongoing effort to pay benefits in a timely manner.

Retirement Services currently recommends that members begin the retirement process 90 calendar days prior to their retirement date. The 90-day time frame is a guideline, not a requirement, and is communicated to members verbally during phone and personal benefits counseling sessions, and is also included in written communications including the Retirement Brochure, Member Handbook, Retirement Planning Checklist, and Retirement Benefit Estimate letter. The 90-day guideline should allow staff adequate time to process the claim and pay the new retiree their first benefit on their retirement date. However, if the member does not give adequate notice or if delays occur in processing the claim, the TFFR plan pays benefits retroactive to date of benefit eligibility. Therefore, even though members may be aware of the 90-day guideline, because benefits are paid retroactively, members often decide to delay beginning the retirement process for a number of reasons. In any event, Retirement Services staff has been very successful in paying benefits on or soon after the member's retirement date regardless of late notification, and member satisfaction with the timeliness of benefit payments is very high.

TFFR's intent is to ensure that the initial retirement benefit payment is received by the member on their desired date of retirement. For the 25 member accounts tested:

- 17 of 25 members received initial retirement benefit payments on their desired date of retirement.
- The remaining 8 members received the initial retirement benefit payment after their desired date of retirement:
 - 2 members failed to notify TFFR of their intent to retire in a timely manner.

- 4 members failed to notify TFFR of their intent to retire prior to their desired retirement date.
- 1 member account had delayed processing caused by the member's actions.
- 1 member failed to notify TFFR of their intent to retire in a timely manner and the reconciliation of salary necessary to estimate the retirement benefit amount required more than 30 business days.

TFFR issues initial retirement benefit payments on the retirement date desired by the member a majority of the time despite not being notified by members 90 calendar days (65 business days) prior to their desired retirement date. Of the eight exceptions noted during testing, member controlled delays contributed to the overall processing delays of initial retirement benefits. Most notably, seven of the eight members failed to notify TFFR of their intent to retire in a timely manner.

The Presumptive Retirement Process utilizes estimated final salary and service hours when calculating initial retirement benefit amounts. Every member account which utilized estimated final salary and service hours must be recalculated once the employer has reported actual final salary, service hours, and last day worked to TFFR at the close of the fiscal year. The Recalculation of Benefit Process utilizes actual final salary and service hours to recalculate the retirement benefit amount owed the member. If the recalculated retirement benefit amount is different than the amount determined during the Presumptive Retirement Process, the member account is updated to reflect the new retirement benefit payment amount. Subsequent payments will reflect the updated amount. For the 25 member accounts tested:

- 21 of 25 member accounts required retirement benefits to be recalculated.
- TFFR required on average 10 business days to complete the Recalculation of Benefit Process for each member account.
- The retirement benefit amount increased on all 21 member accounts.
- Recalculated retirement benefit amounts were paid on the next available payment date on all 21 member accounts with no delays.

At the time of this review no additional performance metrics or benchmarks beyond those previously addressed are used by Retirement Services to monitor the effectiveness of the Presumptive Retirement Process and/or the Recalculation of Benefit Process. For the purposes of evaluating the overall efficiency of the processes under review, each process was segmented and key dates used to determine timeframes required to move from one point in the process to the next. It is anticipated that lengthy completion times may signify a point in the process where increased efficiency could be gained.

Finding #1: All timeframes identified for both processes under review appeared reasonable and provided no indication that either process experienced a failure at any point. This review has provided insight into the Presumptive Retirement Process and the Recalculation of Benefit Process as well as provided a wide variety of data points. TFFR has the potential to leverage this new information to its advantage.

Recommendation #2: Audit Services recommends that timeframes identified be reviewed for reasonableness and additional performance metrics be developed to improve overall monitoring of current processes.

Management Response Recommendation #2:

Retirement Services concurs with this recommendation and will enhance our review of timelines and performance metrics as additional data becomes available.

The current presumptive retirement process allows new retirees to begin retirement benefits even before all final salary and service has been reported to the pension plan. This timely payment of a first benefit is appreciated by members and is a high priority for Retirement Services staff. The current process allows a small staff to process hundreds of retirement claims during the busy retirement months (March – August). The process also gives staff flexibility to work on retirement requests in addition to completing their other duties. Current timeframes are reasonable for the major tasks required to complete the retirement process. However, now that more data is available, Retirement Services plans to use this information to better monitor the effectiveness of the retirement process in the future. As additional data becomes available each year, we will continue to evaluate timelines and information to identify if the process can be improved, if the process has broken down, or if an anomaly has occurred.

Observations, Conclusions and Recommendations Phase II

TFFR has controlled total appropriated expenses since 2012, continued to lower appropriated cost per member since 2012, and maintained current staffing levels all while experiencing higher than normal increases in membership. TFFR financial metrics for the last five fiscal years indicate efficiency in operations.

Appropriated expenses at TFFR continue to increase, which is not unexpected. Appropriated expenses have increased at a consistent rate of 1% - 2% each year, except for fiscal year 2011 which saw an increase of approximately 7%. This increase was directly related to the search for a new Executive Director/CIO and larger than normal salary increases agency wide. These expenses would be considered an anomaly and unexpected. Appropriated expenses have increased on average 2.41% per year. If fiscal year 2011 is removed from the analysis, appropriated expenses have increased at a rate of 1.25% per year.

Total membership continues to increase at an average rate of 2.41% per year, with the largest increases in membership occurring in fiscal year 2013 and 2014. Increases in total TFFR membership correlate to changing demographic conditions in North Dakota, which per the US Census Bureau has experienced a population increase of 9.9% since 2010. In 2013, 29.2% of North Dakota's population was under the age of 18 which will continue to place increased demands on the educational system and by extension TFFR. The number of retirees, beneficiaries, and terminated members continues to increase at a faster rate than active members.

Appropriated cost per member has steadily decreased since 2012 at an increasing rate. An increase in the appropriated cost per member in fiscal year 2011 was the result of an overall increase in appropriated expenses. During the last three fiscal years the appropriated cost per

member has been reduced on average of a \$1.00 per year or 1.37%. In fiscal year 2014, appropriated cost per member was \$70.89 which is only slightly higher than the appropriated cost per member in fiscal year 2010 (\$70.61).

The administration of TFFR is conducted by the Retirement Services Division of RIO. Eight full time staff members are allocated at 100% to TFFR. An additional eight full time staff members have a portion of their time allocated to TFFR at varying percentages, which equates to four full time staff members allocated at 100% to TFFR. Staff to member ratios for the last five fiscal years are as follows:

	<u>FY 2014</u>	<u>FY 2013</u>	<u>FY 2012</u>	<u>FY 2011</u>	<u>FY 2010</u>
Total	20,222	19,690	19,116	18,807	18,382
Staff (12): Active, Retirees, Beneficiaries, Terminated	1:1685	1:1641	1:1593	1:1567	1:1532

Observations, Conclusions and Recommendations Phase III

Member comments and feedback solicited throughout the most recent fiscal year overwhelmingly indicate that members receive excellent service from TFFR staff. TFFR member comments and feedback provide support to the opinion that TFFR is achieving efficiency in operations.

Members were asked to rate staff courtesy, promptness, and content/information on a scale of excellent, above average, average, and poor. Members were also given the opportunity to provide written comments. Member satisfaction results for the three previously noted categories are as follows:

Staff Courtesy Survey Ratings:

	Excellent	Above Average	Average	Poor
Totals	172	9	0	0
Weight	4.0	3.0	2.0	1.0
Percent	95%	5%	0%	0%
Average	4.0			

Promptness Survey Ratings:

	Excellent	Above Average	Average	Poor
Totals	165	12	3	1
Weight	4.0	3.0	2.0	1.0
Percent	91%	7%	2%	1%
Average	3.9			

Content/Information Survey Ratings:

	Excellent	Above Average	Average	Poor
Totals	163	15	2	0
Weight	4.0	3.0	2.0	1.0
Percent	91%	8%	1%	0%
Average	3.9			

Distribution:

David Hunter, Executive Director/CIO

Fay Kopp, Deputy Executive Director/Chief Retirement Officer

Connie Flanagan, Fiscal and Investment Operations Manager

Shelly Schumacher, Retirement Program Manager

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
GLEN ULLIN SCHOOL DISTRICT
JUNE 11, 2015**

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. Corrections were made to accounts for the additional fiscal years of 2013/14 and 2014/15 since reporting errors occurred.

FINDINGS

In our opinion, for the time period covered in the audit, the retirement salaries for fiscal years 2011/12 through 2014/15 reported by the Glen Ullin School District were not in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted.

1. The District did not report eligible extra-curricular and subbing salary.
2. The District reported subbing salary without a written agreement.
3. The District reported ineligible sports related salary- line-judging, books, referee, and ticket-taking salary.
4. The District did not issue written agreements for teachers who taught summer school.
5. The District did not have procedures for monitoring the hours taught by retired teachers who had returned to teach.

RECOMMENDATIONS AND CORRECTIVE ACTION

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

Finding 1:

Eligible salary was not reported to TFFR due to programming errors that occurred when the District installed a new accounting system during the audit period. The District did not report eligible advisor, athletic director, band/choir, cheerleading, coaching and subbing salary for ten members. Nine of the members' accounts will be corrected because the amounts were material. This error caused a shortage of contributions. RIO will notify the members that adjustments have been made to their accounts. It is the responsibility of the District to collect the contributions owed by the member (see the Primary Test and Worksheet for Changes in Salaries and Contributions).

Finding 2:

The District reported subbing salary without a written agreement for one member that resulted in an overpayment of contributions. RIO will correct the account and notify the member that an adjustment has been made. It is the responsibility of the District to refund the contributions owed to the member (see Primary Test and Worksheet for Changes in Salaries and Contributions).

Finding 3:

Due to programming errors, the District reported ineligible sports related salary-books, line-judging, referee and ticket-taking for eight members. Six members' accounts will be corrected because the amounts were material. This error resulted in an overpayment of contributions to TFFR. RIO will notify the members that adjustments have been made to their accounts. It is the responsibility of the District to refund the contributions owed to the member (see Primary Test and Worksheet for Changes in Salaries and Contributions).

Finding 4:

Summer school salary was reviewed for two members. The District did not issue written agreements for summer salary during the audit period. However, the District did issue one written agreement to an out-of-district teacher who taught Driver's Education the summer of 2014 upon his request. TFFR recommends that the District provide written agreements for all members. A written agreement can be a contract, school board minutes or other official document evidencing a contractual relationship between a teacher and a participating employer. If written agreements are not issued to a teacher from outside the District or teachers without a continuing contract with the District, the salary would not be reported. The District stated that they would start issuing written agreements for their summer program.

Finding 5:

The District did not have established procedures for monitoring service hours for retired teachers who have returned to teach. It is important for the District to monitor the service hours and salary reported because of the annual limits set for service hours under the General Rule which are based on contract length. State law allows retirees who are receiving TFFR retirement benefits to return to covered employment under certain limitations. If the retirees exceed the limitations, TFFR must discontinue payment of retirement benefits. The District is required to report actual hours worked by retirees who have returned to covered employment to TFFR. It is recommended that the District establish procedures to monitor retirees who have returned to covered employment to ensure proper reporting of hours and salary. The process and procedures for reporting a retired teacher can be found on page 31 of the *TFFR Employer Guide* (see above website address).

The net amount of contributions due to TFFR is \$8,558.03 (see Schedule 2). The bill for the amount due will be sent to the Business Manager. **Please provide payment of contributions owed along with a written response on the District's intent to correct the above errors in future reporting to TFFR by July 17, 2015.**

When an employer is not in compliance, it is the policy of Audit Services to follow-up and review a sample of salaries that have been reported to TFFR after the audit period to ensure that reporting procedures have been corrected. Therefore, we will be reviewing salaries again during fiscal year 2016/17.

The findings and recommendations in this compliance audit are based on state statutes and rules in effect during the audit period. Legislative and rule changes may occur after the audit period. Therefore, any future modifications to negotiated

agreements, salary schedules, or special payments should be discussed with TFFR in advance to confirm whether amounts should be reported as eligible TFFR salary and subject to member and employer contributions. Written authorization and documentation describing the payment details will be requested in order to make eligible salary determinations.

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



Dottie Thorsen
Auditor

Enclosures

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**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
SHEYENNE VALLEY AREA CAREER AND TECHNOLOGY CENTER
JUNE 2, 2015**

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 Sheyenne Valley Area Career and Technology Center for the 2012/13 through 2013/14 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 Sheyenne Valley Area Career and Technology Center that would affect a large portion of the population for fiscal years 2012/13 through 2013/14. 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 2012/13 through 2013/14 reported by the Sheyenne Valley Area Career and Technology Center were in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). There were no exceptions noted.

RECOMMENDATION

TFFR recommends that the Sheyenne Valley Area Career and Technology Center personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is www.nd.gov/rio/TFFR/Publications.

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

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



Dottie Thorsen
Auditor

Enclosures

MEMORANDUM

TO: State Investment Board (SIB)

FROM: Rebecca Dorwart, SIB Audit Committee Chair

DATE: October 23, 2015

**SUBJECT: Fiscal Year End Audit Committee Activities Update
July 1, 2014 to June 30, 2015**

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 2014-2015 fiscal year were: Rebecca Dorwart, Chair; Mike Gessner, Vice Chair/SIB Liaison representing the Teachers' Fund For Retirement (TFFR) Board; Karol Riedman, Health Dept.; Mike Sandal, representing the Public Employees Retirement System (PERS) Board; and Cindy Ternes, designee from Workforce Safety & Insurance representing elected and appointed officials. The Audit Committee held four regular meetings during the fiscal year ended June 30, 2015.

Activities of the Audit Committee during the past year included:

- The Committee provided input on job duties and responsibilities for the Supervisor of Audit Services position and participated in the recruitment and selection process. The Supervisor of Audit Services position was filled on October 13, 2014.
- The Committee provided guidance related to audit activities and planning for Fiscal Year July 1, 2014 through June 30, 2015. Progress was monitored on a quarterly basis. Audit activities included:
 - Twenty-four employer audits including twenty-two TFFR Compliance Audits and two Not In Compliance (NIC) Reviews. Compliance with the definition of salary as it appears in NDCC 15-39.1-04(9) is reviewed along with service hours and eligibility.
 - Four TFFR File Maintenance Audits were completed. Changes made to TFFR member account data by RIO employees are reviewed.
 - Annual Benefit Payment Audit was completed. Deaths, purchases of service, refunds, long outstanding checks, and long term annuitants are reviewed to ensure that established policy and procedures are being adhered to.
 - Annual Salary Verification Project was completed. Salaries and contributions reported to TFFR for the prior fiscal year for fifty randomly selected member accounts are verified.
 - TFFR Benefit Payment Cost Efficiency Review was completed. Verified that retirement benefits are being paid at TFFR on a cost effective basis according to the *Ends* policy in the SIB Governance Manual.
 - Executive Limitations Audit was completed. Determined Executive Director/CIO level of compliance with SIB Governance Manual Executive Limitation policies (A-1 through A-11) for the calendar year ending December 31, 2014.
- The Committee received the results of the RIO financial audit for the fiscal year ended June 30, 2014 from independent auditors, CliftonLarsonAllen, LLP. They issued an unqualified opinion.
- The Committee reviewed the RIO financial audit plan for fiscal year ended June 30, 2015 with independent auditors, CliftonLarsonAllen, LLP. Discussion included scope of the audit to ensure complete

coverage of financial information and additional education on GASB 67 and 68 statements for pension plan reporting.

- The Committee reviewed the Request for Proposal (RFP) for the selection of an independent auditor for the RIO for fiscal years 2015, 2016, and 2017. Discussion included a review of the overall process and selection criteria.
- The Committee adopted a detailed audit work plan, budgeted hours, and TFFR employer risk assessment for fiscal year July 1, 2015 to June 30, 2016.
- The Committee received staff updates on GASB 67 and 68 pension reporting requirements, implementation planning, census data audits, and employer training programs.

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.

**RETIREMENT AND INVESTMENT OFFICE
AUDIT SERVICES
2015 - 2016 1st Quarter Audit Activities Update
July 1, 2015 – September 4, 2015**

The audit objective of Audit Services 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.

Audit coverage is based on the July 1, 2015 through June 30, 2016 work plan approved by the SIB Audit Committee. The audit activities undertaken are consistent with the Audit Services 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.

Retirement Program Audit Activities

• **TFFR Compliance Audits and Not In Compliance (NIC) Reviews**

We examine employer reporting to the Teachers' Fund for Retirement (TFFR) to determine whether retirement salaries and contributions reported for members of TFFR are in compliance with the definition of salary as it appears in NDCC 15-39.1-04(9). Other reporting procedures reviewed during the audit process are calculation of service hours and eligibility for TFFR membership. A written report is issued after each audit examination is completed.

As of September 4, 2015, five TFFR Compliance Audits and one Not In Compliance (NIC) review had been completed. Seven TFFR Compliance Audits were in progress and three were pending but not yet started. Six employers were recently notified of an upcoming TFFR Compliance Audit. Seventeen employers have yet to be audited in the third cycle.

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

• **TFFR File Maintenance Audits**

Audit Services tests changes made to TFFR member account data by RIO employees on a quarterly basis. Audit tables are generated and stored indicating any file maintenance changes made to member accounts. The TFFR File Maintenance Audit for the fourth quarter of fiscal year 2015 was completed and no exceptions were noted.

• **Benefits Payments Audit**

A review of deaths, purchases of service, refunds, long outstanding checks, and long term annuitants was completed to determine that established policy and procedures were being followed by the staff of Retirement Services. The 2014-2015 Benefit Payments Audit was completed and one exception was noted.

Administrative and Investment Audit Activities

• **Executive Limitation Audit**

Each year the SIB conducts a customer satisfaction survey. The purpose of this annual survey is to determine how well the SIB, through the staff of the RIO, is meeting the expectations of its clients. This survey is part of the SIB's ongoing effort to be more responsive to the needs of their clients and to continually improve the services that are provided. Audit Services facilitated the survey in July 2015 and results will be provided to the SIB in October 2015.

• **External Audit Support**

Audit Services is providing support to our external audit partners, CliftonLarsonAllen (CLA), during the annual financial audit of the RIO which is currently underway. Audit Services notified seventeen employers of upcoming

GASB 68 Census Data audits in August 2015. The GASB 68 Census Data audits are currently underway and requests for supporting documentation have been sent to selected employers.

Professional Development Activities

Audit Services continues to pursue networking and professional development opportunities via the IIA's local chapter, Central Nodak, by attending monthly meetings. Topics of discussion have included retirement planning and the banking industry in North Dakota.

Summary

Audit effort is directed to activities that are of greatest concern to the SIB Audit Committee, RIO Management, and our external audit partners. Audit Services will continue to work closely with the SIB Audit Committee, RIO Management, and our external audit partners to continue to improve overall efficiency, effectiveness, and economy of total audit activity.

**Audit Services – North Dakota Retirement and Investment Office
Benefit Audit for Processing the Accounts of Deceased Members,
Long-Outstanding Checks, Long-Term Annuitants,
Purchases of Service, and Refund of Accounts
Final Audit Report
September 3, 2015**

Background

The Audit Services Division of the Retirement and Investment Office (RIO) conducted an audit to verify that Retirement Services was following established procedures for processing deaths of annuitants, checks outstanding sixty days or longer, purchases of service, and refunds of member accounts as well as monitoring long-term annuitants in payment status. This review was conducted per the request of the State Investment Board (SIB) Audit Committee, the Executive Director/CIO, and the Deputy Executive Director-Chief Retirement Officer.

Results Summary

Audit Services found that established procedures for processing deaths of annuitants, checks outstanding sixty days or longer, purchases of service, and refunds of member accounts were being followed. Audit Services noted that one established procedure for the monitoring of long-term annuitants in payment status was not complied with in its entirety.

Scope

Information needed to complete the audit was requested in June 2015. Audit work started July 2015 and concluded in August 2015. Audit work for each process reviewed encompassed three phases:

- Phase I – Review and Document Changes to Established Procedures
- Phase II – Sample Selection and Testing of Established Procedures
- Phase III – Findings and Recommendations

Observations, Conclusions and Recommendations**Processing the Deaths of Annuitants:**

Two sets of procedures were reviewed including the methods employed by TFFR to determine if annuitants have died and the procedures instituted to close the deceased annuitants account following TFFR's notification of the death. The audit confirmed that established procedures ensure that benefit payments are not overpaid.

The death of a member can be communicated to TFFR by family members, employers, banks, funeral homes, attorneys, searching obituaries in the papers, North Dakota Vital Statistic reports, and Smallworld Solutions reports. In the audit, two Smallworld Solutions reports and twelve North Dakota Vital Statistic reports were reviewed. These reports compare the CPAS database to Smallworld Solutions and North Dakota Vital Statistics databases of deceased persons. Smallworld Solutions reports are run twice a year while the North Dakota Vital Statistic reports are run monthly.

The October Smallworld Solutions report had twenty-one matched annuitants to the CPAS database. All twenty-one deaths had already been processed by Retirement Services. The April Smallworld Solutions report had five matched annuitants to the CPAS Database, of the five TFFR had already been notified of three of the annuitant deaths. The other two deaths were new notifications. The number of matched annuitant deaths had increased in fiscal year 2014/15 most likely due to Smallworld Solutions increasing

the number of comparison databases. The expansion of the comparison databases increases TFFR's opportunity for discovering annuitants who live out-of-state that have died.

The twelve North Dakota Vital Statistics reports had 177 matched annuitants to the CPAS database. TFFR had already processed 148 of the annuitant deaths; twenty-two were in process; one death was a new notification, and six deaths were no longer members of TFFR.

Finding: Audit Services found that Retirement Services was following the established procedure of comparing the CPAS database to the database of Smallworld Solutions twice a year, and on a monthly basis to the database of North Dakota Vital Statistics.

Recommendation: Retirement Services should continue the comparison of the CPAS database to the databases of Smallworld Solutions and North Dakota Vital Statistics to ensure timely notification of deaths and the appropriate termination of benefit payments.

Audit Services reviewed the procedures to close an account once the death of an annuitant is determined. Fifty-one accounts were included in the test sample. The sample included accounts open from the prior audit year, accounts open as of 6/18/2015, accounts from the October Smallworld report, and accounts from the April Smallworld report. Forty-three of the annuitant's accounts had been processed and closed. Eight annuitant accounts remained open pending required documentation from the estate and/ or family. There was no overpayment of benefits.

Finding: Audit Services found that Retirement Services followed the established procedures to close an account of an annuitant who died.

Recommendation: Retirement Services should continue following the procedures. There were no overpayment of benefits for the accounts tested and deaths were closed in a timely manner.

Processing of Checks Outstanding Sixty Days or Longer:

Procedures have been established by Retirement Services to ensure members cash payments in a timely manner. Those same procedures also dictate that staff follow-up with members and monitor checks outstanding longer than sixty days. The audit confirmed Retirement Services staff was adhering to the established procedures.

Two annuitants had checks outstanding sixty days or longer per the list of outstanding checks received from the Bank of North Dakota dated 07/01/2015. Retirement Services' staff was able to make contact with one of the annuitants and facilitate the cashing of the outstanding check. Retirement Services' ultimately suspended the benefits of the second annuitant due to a lack of response from the annuitant's family which ultimately prompted the cashing of the outstanding checks. All checks outstanding sixty days or longer per the list of outstanding checks dated 07/01/2015 were cashed per the Bank of North Dakota by 08/01/2015.

Finding: Audit Services found that Retirement Services followed the established procedures for checks outstanding sixty days or longer.

Recommendation: Retirement Services should continue following the established procedures. The active follow-up with annuitants and monitoring of checks outstanding sixty days or longer by Retirement Services' staff is critical in facilitating the clearing of outstanding checks. Retirement

Services should consider moving those annuitants who have had benefits suspended due to a check outstanding for sixty days or more to EFT as a condition for the reactivation of retirement benefits.

Retirement Services Response: Retirement Services will continue following established procedures relating to processing checks outstanding 60 days or longer. Retirement Services staff strongly encourages electronic funds transfer (EFT) to annuitants who have lost checks, have outstanding checks, or have benefits suspended due to outstanding checks. Staff has had good success with annuitants voluntarily signing up for EFT in these situations. Since all new TFFR annuitants are required to receive their payment via EFT, there are currently approximately 90 annuitants (about 1% of total annuitant population) who still receive paper checks, and these are primarily older retirees who are more comfortable receiving paper checks. Because it is such a small group of older retirees, we do not believe a policy change is necessary at this time to require EFT payments, since it is rare for these retirees to not cash their checks within 60 days or after being contacted by Retirement Services staff. Should this become a problem in the future, we will consider drafting a policy for TFFR Board consideration to require EFT as a condition for the reactivation of retirement benefits.

Monitoring Long-Term Annuitants in Pay Status:

Audit Services reviews the accounts of annuitants ninety years of age and older who live out-of-state to verify original eligibility of retirement benefits and ensure that communication between the annuitant and TFFR is ongoing. Retirement Services also reviews the accounts of annuitants ninety years of age and older who reside out-of-the state to ensure that the annuitant is not deceased.

There were 335 long-term annuitants listed on a report of annuitants run from CPAS dated 07/22/2015 with eighteen of the annuitants exceeding one hundred years old. Audit Services reviewed five out-of-state annuitants who were over 100 years of age. The microfiche on file had the appropriate retirement documents and salary/service hours' history confirming original eligibility of retirement benefits. Current image files contained more recent documents including direct deposit forms, tax forms, new beneficiary forms, and/or power of attorney documents confirming recent activity/communication between TFFR and the annuitant.

Audit Services then reviewed the Ninety and Older Long-Term annuitant reports ran by Retirement Services during fiscal year 2014/15. Retirement Services did review all of the out-of-state annuitants listed on reports ran during the first, third, and fourth quarter on Obitfinder, a website which lists obituaries of 1,500 national and international newspapers. Retirement Services failed to run and review the Ninety and Older Long-Term annuitant report during the second quarter.

Finding: Audit Services found that Retirement Services did not follow the established procedure for monitoring long-term annuitants. Retirement Services failed to run and review the Ninety and Older Long-Term Annuitant report during the second quarter.

Recommendation: Retirement Services should follow the established procedure for running and reviewing the Ninety and Older Long-Term Annuitant report. In order to ensure coverage throughout the year, the Obitfinder searches and Smallworld report comparisons should be run at different timeframes where the searches occur approximately every two months. This would ensure if a death occurs without TFFR's knowledge the overpayment of a benefit would not exceed several months.

Retirement Services Response: Retirement Services will continue following established procedures for monitoring older annuitants in pay status. Retirement Services recognizes the importance of timely notification of annuitant's deaths which is why, in addition to death notifications received from family members and other individuals, we also regularly monitor obituaries and death reports in state newspapers, ND Vital Statistics, Smallworld Solutions, and Obits USA. Because we have excellent response from these activities, there are very few deaths that go unreported for more than 1 – 2 months.

During the 2014-15 year, three Obits USA reports were processed. Because a Retirement Services staff member left employment during the second quarter, high priority job duties were transitioned to others within the department. The Obitfinder report was delayed because of reduced staff and higher priority duties during that time frame. The next Obitfinder report was then processed early in the third quarter.

Retirement Services will modify timing and type of death search conducted. Retirement Services will plan to conduct death searches four times a year with Obits USA (two searches for annuitants age 90 and older; two searches for age 100 and older) and two times a year with Small World Solutions (all annuitants prior to calendar and fiscal year end). The exact timing of each report may vary during peak workload periods, but staff will attempt to space them at regular intervals.

Processing Purchases of Service:

Retirement Services has established procedures for eligible members to purchase certain types of service credit including air time, time lost on military duty and refunded time. Members are allowed to purchase service via a lump sum or installment purchase agreement. Audit Services reviewed lump sum purchases. The audit confirmed that Retirement Services is following established procedures for the purchasing of service by members.

A sample selection of lump sum purchases was randomly chosen from the fourth quarter CPAS table report of the Retirement Program Specialist who primarily processes purchases for the members. The appropriate documentation was found on the member image files, payment information was found on CPAS/Image files, purchase of service was correctly posted to CPAS, and the purchase calculation was found on CPAS.

Finding: Audit Services found that Retirement Services followed the established procedures for the purchase of service.

Recommendation: Retirement Services should continue following the established procedures for the purchase of air time, military time, and refunded time.

Processing Refunds of Member Accounts:

Retirement Services has established procedures for the process of refunding the account value per the request of the member. When an eligible member requests a refund of the account value, TFFR will refund the member contributions and interest earned to the member. The Audit confirmed that Retirement Services is following established procedures for the refunding of the account value per the request of the member.

The Audit reviews the established procedures Retirement Services set-up for the process of refunding the account value per the request of the member. When an eligible member requests a refund of account value, TFFR refunds the member contributions and the interest earned.

Information Services provides Audit Services with a report listing the refunds issued to members on a monthly basis. A sample of six member accounts was selected from the May 2015 and June 2015 reports. Of the six member accounts sampled – four members were fully vested and two members were not vested. For the six members tested, Audit Services located the appropriate documentation on the member image account, a corresponding record in CPAS where the account value was refunded, confirmed taxes were withheld if applicable, and the refund check had cleared TFFR's bank.

Finding: Audit Services found that Retirement Services followed the established procedures for the refund of account value.

Recommendation: Retirement Services should continue following the established procedures when a member requests a refund of their account value.

Distribution:

David Hunter, Executive Director/CIO
Fay Kopp, Deputy Executive Director/Chief Retirement Officer
Shelly Schumacher, Retirement Program Manager

Audit Services – North Dakota Retirement and Investment Office
TFFR File Maintenance Audit
Final Audit Report
September 8, 2015

Background

On a quarterly basis the Audit Services Division of the Retirement and Investment Office (RIO) reviews system generated audit tables to ensure transactions initiated by staff are expected and appropriate given an individual's role within the organization. The accuracy of system generated month end reporting of lump sum payments and installment purchases of service credit is also verified along with the updating of contact and demographic information on member accounts. This review is a part of the Audit Services Division continuous monitoring activities.

Results Summary

Audit Services determined that all transactions which occurred in the fourth quarter of fiscal year 2015 for all User IDs were expected and appropriate based on the organizational role held by the individual who initiated the transactions. Monthly reporting of lump sum payments and installment purchases of service credit was accurate. Retirement Services staff adhered to established procedures for the installment purchases of service credit. Contact and demographic information on member accounts was updated appropriately and required documentation was retained on FileNet.

Scope

Audit information is obtained throughout the quarter under review. System generated audit table reports are run quarterly by Audit Services staff. Staff roles and responsibilities and departmental procedures are verified at least annually and as needed throughout the year with Division management. System generated reports of lump sum payments and installment purchases of service credit are provided monthly by the Information Services Division which also provides a listing of system User IDs, security roles, and any changes to either on a yearly basis. Each staff member within the Information Systems Division also provides a change documentation log which details transactions completed and who requested each transaction. Member Action Forms (SFN 50981 5-14) are collected in the first quarter of each fiscal year with the assistance of the Office Assistant. Actual audit work commences the month following the end of each quarter.

- Phase I –
 - Review and document changes to staff roles and responsibilities and established procedures.
- Phase II –
 - Review audit table reports for all User IDs which have listed transactions.
- Phase III –
 - Review accuracy of month end reporting of lump sum payments and installment purchases of service credit. Sample selection and testing of established procedures related to purchases, refunds, rollovers, and partial lump sum option (PLSO).
- Phase IV –
 - Sample selection and testing of member account updates to contact and demographic information.

Observations, Conclusions and Recommendations

Observations, Conclusions and Recommendations Phase I

Staff roles and responsibilities were confirmed with the Fiscal and Investment Operations Manager for the Fiscal Management Services Division and with the Retirement Program Manager for the Retirement Services Division. The RIO Administrative Manual was also consulted to ensure that confirmed staff roles and responsibilities corresponded to agency approved job descriptions. The Retirement Program Manager did confirm that an update was required to the established procedures for the Purchase of Service Credit. These updates were completed in August 2015 and the revised procedures were referenced during the audit. The revised procedures were subsequently uploaded to the RIO Intranet website and are available for staff to reference.

Observations, Conclusions and Recommendations Phase II

Audit tables are generated by CPAS which log transactions initiated by staff. The listed transactions are related to the day to day business operations of the Teachers' Fund for Retirement (TFFR). Audit Services staff reviews all transactions initiated by each unique User ID for appropriateness based on the organizational role of the individual assigned to each User ID. Division management verifies the roles and responsibilities of staff. Information Services provides a listing of all available User IDs as well as identifies the staff member assigned to each User ID and corresponding security role. Any transactions which are not usual and customary are investigated further.

Currently there are twenty-eight valid User IDs that are authorized to access CPAS. Of the twenty-eight valid User IDs, nine User IDs had transactions initiated by staff in the fourth quarter of fiscal year 2015. Upon review only four User IDs had transactions which necessitated further review, all of which were ultimately determined to be expected and appropriate.

Audit Services determined that all transactions which occurred in the fourth quarter of fiscal year 2015 for all User IDs were expected and appropriate based on the organizational role held by the individual who initiated the transactions.

Observations, Conclusions and Recommendations Phase III

Information Services provides two reports to Audit Services on a monthly basis. The NDRIO Lump Sum Payment Register lists all refunds, rollovers, and PLSOs paid to members each month. The TFFR Installment Purchase of Credit report lists the current status each month of all in progress installment purchases of service credit. Audit Services verifies that the entries on these two system generated reports correspond to an entry on an audit table. Supporting documentation and other information is then located on FileNet and CPAS to verify the accuracy of the entry.

Audit Services was able to match each entry on the NDRIO Lump Sum Payment Register to the table report of either the Member Specialist or the Retirement Program Specialist primarily assigned to process refunds due to the death of an annuitant. FileNet was accessed to ensure that the refund processed as the result of the death of an annuitant contained the Application for

Refund and Enrollment for Survivor Benefits form, payment amount was then reconciled to CPAS. For each PLSO distribution FileNet was accessed to ensure that the Application for Partial Lump Sum Distribution or Application for Refund form was uploaded and the payment amount was then reconciled to CPAS. Additional testing was not done on refunds and/or rollovers paid to members as this would duplicate efforts of another audit occurring at the same time.

Audit Services was able to match each entry on the TFFR Installment Purchase Report to the table report of the Investment Accountant, Compliance Officer, or the Retirement Program Specialist primarily assigned to process purchases of service. One in progress installment purchase of service credit was randomly selected for further testing. The Purchase of Service Credit procedures dictate eligibility, cost, and available payment methods for the purchase of service credit. For the sample selected established procedures were adhered to with regards to determining eligibility, cost, and payment methods. Required documents including correspondence, purchase statement, and installment agreement were all located on FileNet for the sample selected. The calculation for the purchase of service was found on CPAS. The calculation for the purchase of service matched the purchase statement and installment agreement provided to the member. Audit Services verified that the member has an active license to teach in North Dakota and also has a written agreement with a participating employer in North Dakota.

Finding #1: The periodic payment amount was displaying incorrectly in CPAS on the installment purchase of service credit which was selected for further testing. It was subsequently determined that the installment choice was not being selected in the set-up of the final calculation in CPAS. Therefore the periodic payment amount reflected the lump sum cost as opposed to the installment payment amount. This error in the set-up of the final calculation has no impact on the calculation used to determine actual cost, interest, and installment payment amount.

Management Response Finding #1: The Retirement Program Manager immediately met with retirement staff involved in processing the service purchase to determine the source of the display error. Corrections have been made to past installment purchases where possible. Staff has received additional training and it is not anticipated that this display error will occur in the future.

Recommendation #1: Retirement Services should consider requiring the verification of member eligibility as a part of the purchase of service credit process. Verifying the existence of an active teaching license and contracted employment in North Dakota is a relatively simple process and provides another opportunity to confirm the eligibility of members participating in TFFR.

Management Response Recommendation #1:

Retirement Services believes there is a very low risk that individuals who are purchasing service credit do not have a teaching license and contract. We rely on employers to

accurately report such individuals to TFFR since they must have a teaching license in order to be employed as a teacher in ND schools and it is standard practice to issue contracts to licensed teaching staff. Additionally, Audit Services checks member eligibility as part of school district compliance audits, and there are few exceptions where a teacher does not have a teaching license and contract or written agreement (although there are occurrences where no contract may exist for summer school teaching or other extra duties).

However, in an effort to enhance the monitoring of eligibility of plan participation for individuals who request service purchase information, Retirement Services will add an additional task to the current service purchase process to verify the existence of an ESPB license and contract. We will revisit the need for this member eligibility verification task in the future to determine if it should be continued and/or modified.

Audit Services determined that monthly reporting of lump sum payments and installment purchases of service credit were accurate. Testing determined that Retirement Services staff is adhering to established procedures for the purchase of service credit.

Observations, Conclusions and Recommendations Phase IV

Member Action Forms are submitted to TFFR by members who are updating their status with the pension fund. For example a member may be enrolling in TFFR, returning to covered employment after a period of inactivity, or changing/adding a participating employer. Members can also designate or update a beneficiary via a Member Action Form. Although Member Action Forms are received throughout the year, a majority are received during the first quarter of each fiscal year. Audit Services selects a sample of twenty-five Member Action Forms to be tested throughout the fiscal year and verifies that the information provided by members is being accurately entered into CPAS. FileNet is also reviewed to ensure the Member Action Form is properly retained.

Seven Member Action Forms were selected for review during the current audit. It was noted that on two out of the seven Member Action Forms work phone numbers were not updated. A work phone number is not actuarially significant information, but every effort should be made to properly update a member's account.

Audit Services determined that contact and demographic information on member accounts is updated appropriately and Member Action Forms are being properly retained via FileNet upload.

Distribution:

David Hunter, Executive Director/CIO
Fay Kopp, Deputy Executive Director/Chief Retirement Officer
Shelly Schumacher, Retirement Program Manager
Connie Flanagan, Fiscal and Investment Operations Manager
Rich Nagel, Supervisor of Information Systems

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
BILLINGS COUNTY PUBLIC SCHOOL DISTRICT
AUGUST 12, 2015**

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 RIO/TFFR Management upon completion. Independent reports are filed with the Audit Committee of the State Investment Board (SIB) quarterly. All independent reports filed with the Audit Committee of the SIB are published on the RIO website in compliance with North Dakota open records and meetings laws.

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 2012/13 through 2013/14 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 Schedule 1 - 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 Schedule 1 - 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 2012/13 through 2013/14. 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 2012/13 through 2013/14 reported by the Billings County Public School District are 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 summer salary in the wrong fiscal year for one member.
2. The District reported service hours incorrectly for two members.

RECOMMENDATIONS AND CORRECTIVE ACTION

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

Finding 1:

The District reported summer salary in the wrong fiscal year for one member. Salary is reportable in the fiscal year in which the pay is earned. The salary will be moved to the correct fiscal year. Since the member earned a full year of service credit, there will be no correction needed to service hours. The error caused an overpayment of member/employer contributions due to contribution rate changes in 2012/13 and 2014/15. RIO will refund the member/employer contributions which were overpaid. RIO will also notify the member that adjustments have been made to their account. (See Schedule 1 – Primary Test and Changes in Salaries and Contributions Worksheet)

Finding 2:

The District reported service hours incorrectly for two members. Actual hours worked by part-time staff members and retirees who have returned to covered employment are to be reported to TFFR. We recommend that the District establish procedures as needed to monitor part-time staff members and retirees who have returned to covered employment to ensure proper reporting of hours to TFFR. Corrections will be made to one member account. RIO will notify the member that adjustments have been made to their account. The second member account will not be corrected as the member earned a full year of service with another District. (See Schedule 5 - Service Hours Correction)

The net amount of the contributions overpaid by the District is \$172.63. A check for this amount will be sent to the Business Manager. Please reference attached Schedule 2 – Salary Correction Summary. **Please provide a written response on the District's intent to correct the above findings by September 11, 2015.**

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.



Terra L. Miller Bowley
Supervisor of Audit Services

Enclosures

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
DICKINSON PUBLIC SCHOOL DISTRICT
AUGUST 21, 2015**

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 RIO/TFFR Management upon completion. Independent reports are filed with the Audit Committee of the State Investment Board (SIB) quarterly. All independent reports filed with the Audit Committee of the SIB are published on the RIO website in compliance with North Dakota open records and meetings laws.

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 2012/13 through 2013/14 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 *Schedule 1 - 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 *Schedule 1 - 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 2012/13 through 2013/14. 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 2012/13 through 2013/14 reported by the Dickinson Public School District are 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 contract salary and service hours for one member without a written agreement.
2. The District reported summer salary in the wrong fiscal year for one member.
3. The District reported service hours incorrectly for eight members.
4. The District did not issue written agreements for summer school for one member.
5. The District does not actively monitor retirees who have returned to covered employment to ensure they do not exceed the maximum allowable hours.

RECOMMENDATIONS AND CORRECTIVE ACTION

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

Finding 1:

The District reported contract salary and service hours for one member without a written agreement. The member does not have a continuing contract with the District. If written agreements are not issued to teachers from outside the District or to teachers without a continuing contract with the District, salary and service hours are not reportable to TFFR. The member account will be corrected, member/employer contributions will be refunded, and service hours will be reduced. RIO will notify the member that adjustments have been made to their account.

(Please reference *Schedule 1 – Primary Test* and *Changes in Salaries and Contributions* worksheet.)

Finding 2:

The District reported summer salary in the wrong fiscal year for one member. Salary is reportable in the fiscal year in which the pay is earned. A portion of the summer salary reported was moved to the correct fiscal year at the request of the District in the fall of 2012. The remaining amount of summer salary reported in the wrong fiscal year will be moved to the correct fiscal year at this time. Since the member earned a full year of service credit, there will be no corrections needed to service hours. The error caused an overpayment of member/employer contributions due to a contribution rate change in 2012/2013 when the summer salary was reported. RIO will notify the member that adjustments have been made to their account and refund the excess member/employer contributions. (See *Schedule 1 – Primary Test* and *Changes in Salaries and Contributions* worksheet.)

We applaud the District for efforts undertaken at the close of the 2014-2015 fiscal year to ensure that summer salary earned in June 2014 was reported in the correct fiscal year. The District must continue these efforts in the future to ensure that summer salary is reported correctly. Prior to the close of the most recent fiscal year the District was reporting June summer salary in July of the next fiscal year. The District was then contacting RIO staff who manually transferred June summer salary to the proper fiscal year per information provided from the District. In this particular case the District provided inaccurate information to RIO staff, which caused funds to be transferred incorrectly. Accuracy and timeliness of reporting is improved if summer salary is reported in the proper fiscal year directly from the District to TFFR.

(Please reference *Schedule 1 – Primary Test* and *Changes in Salaries and Contributions* worksheet.)

Finding 3:

The District reported service hours incorrectly for eight members. The member accounts will be corrected. The District is required to report actual hours worked by part-time members to TFFR. We continue to be concerned that service hours are not being reported to TFFR accurately by the District. This error was also identified in the prior audit report dated June 24, 2009. The District must establish procedures to monitor part-time members to ensure proper reporting of hours to TFFR and maintain adequate documentation of actual hours worked. Salary and service hours reported to TFFR are critical components in determining eligibility for and the calculating of retirement benefits. (Please reference *Service Hours Correction* worksheets.)

Finding 4:

The District did not issue written agreements for summer school for one member. The District has made a commendable effort to issue written agreements to all members who participate in summer school. However, the District failed to issue written agreements for summer school in 2013 and 2014 to one member. No corrections are required to the member account as the member had a continuing contract with the District for both the 2013 and 2014 school years. TFFR recommends that the District provide written agreements for summer school for all members. A written agreement can be a contract, school board minutes, or other official document evidencing a contractual relationship between a teacher and a participating employer. If written agreements are not issued to teachers from outside the District or to teachers without a continuing contract with the District, salary and service hours would not be reportable.

Finding 5:

The District does not actively monitor retirees who have returned to covered employment to ensure they do not exceed the maximum allowable hours. State law allows retirees who are receiving TFFR retirement benefits to return

to covered employment under certain limitations. If the retiree exceeds these limitations, TFFR must discontinue payment of retirement benefits. One such limitation which must be adhered to is the General Rule – Annual Hour limit, retirees who return to covered employment under the General Rule are restricted in the hours which can be worked based on the length of the contract issued. The District is required to report actual hours worked by retirees who have returned to covered employment to TFFR. It is recommended that the District establish procedures to monitor retirees who have returned to covered employment to ensure proper reporting of hours to TFFR.

The net amount of the contributions overpaid by the District is \$203.25. The check for the amount overpaid will be sent to the Business Manager. Please reference attached *Schedule 2 – Salary Correction Summary*. **Please provide a written response on the District's intent to correct the above findings by September 25, 2015.**

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.



Terra L. Miller Bowley
Supervisor of Audit Services

Enclosures

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
EMERADO ELEMENTARY SCHOOL
JULY 17, 2015**

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 2012/13 through 2013/14 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 Schedule 1 - 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 Schedule 1 - 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 2012/13 through 2013/14. 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 2012/13 through 2013/14 reported by Emerado Elementary School are 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 contract salary after deduction for insurance premiums for two members.
2. The District did not report contract salary and service hours for two members with written agreements.
3. The District reported service hours incorrectly for one member.

RECOMMENDATIONS AND CORRECTIVE ACTION

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

Finding 1:

The District reported contract salary after deduction of insurance premiums for two members. Short term disability/cancer and accident insurance premiums were deducted from contract salary in error causing salary and contributions to be under reported to TFFR. The material salary amount will be corrected for one of the member accounts and RIO will notify the member that adjustments have made to their account. It is the District's responsibility to collect the contributions due directly from the member. The second member account will not be corrected due to

the immaterial amount of the error. Please reference Schedule 1 – Primary Test and Changes in Salaries and Contributions Worksheet.

Finding 2:

The District did not report contract salary and service hours for two members with written agreements. Members who have written agreements with the District and are licensed to teach in the state of North Dakota are required to participate in TFFR. All eligible salary and service hours earned are reportable to TFFR for the term of the written agreement. This error caused salary and contributions to be under reported to TFFR. It is the District's responsibility to collect the contributions due directly from the members. Please reference Schedule 1 – Primary Test and Changes in Salaries and Contributions Worksheet.

Finding 3:

The District reported service hours incorrectly for one member. Corrections will be made to the member account. RIO will notify the member that adjustments have been made to their account. Please reference attached Schedule 5 - Service Hours Correction.

The net amount of the contributions underpaid by the District is \$4,449.16. An invoice for the net amount of contributions due is included. Please reference attached Schedule 2 – Salary Correction Summary. **Please provide payment for the contributions due and provide a written response on the District's intent to correct the above findings by August 21, 2015.**

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.



Terra L. Miller Bowley
Supervisor of Audit Services

Enclosures

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
JAMES RIVER MULTIDISTRICT SPECIAL EDUCATION UNIT
AUGUST 12, 2015**

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 RIO/TFFR Management upon completion. Independent reports are filed with the Audit Committee of the State Investment Board (SIB) quarterly. All independent reports filed with the Audit Committee of the SIB are published on the RIO website in compliance with North Dakota open records and meetings laws.

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 2012/13 through 2013/14 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 Schedule 1 - 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 Schedule 1 - 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 2012/13 through 2013/14. 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 2012/13 through 2013/14 reported by the James River Multidistrict Special Education Unit are in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following finding was noted.

1. The District reported an ineligible vision insurance premium refund for one member.

RECOMMENDATIONS AND CORRECTIVE ACTION

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

Finding 1:

The District reported an ineligible vision insurance premium refund for one member. The District issued a refund to one member due to an overpayment of vision insurance premiums. Fringe benefits or side, non-wage benefits which accompany or are in addition to a member's employment including insurance programs, annuities, transportation allowances, housing allowances, meals, lodging, and expense allowances, or other benefits provided by a member's employer are non-reportable. The reimbursement for the overpayment of the vision insurance premiums was

reported to TFFR in error. Due to the immaterial amount of the error no corrections will be made to the member account. See Schedule 1 – Primary Test.

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 black ink, reading "Terra L. Miller Bowley". The signature is written in a cursive, flowing style.

Terra L. Miller Bowley
Supervisor of Audit Services

Enclosures

**REPORT ON NOT IN COMPLIANCE (NIC) REVIEW
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
MINNEWAUKAN PUBLIC SCHOOL DISTRICT
AUGUST 10, 2015**

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 2013/14 school year. For the 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 Schedule 1 - 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 year being audited. See Schedule 1 - 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 year 2013/14. 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 year 2013/14 reported by the Minnewaukan Public School District are not in compliance with the definition of salary as it appears in NDCC 15-39.1-04 (9). The following findings were noted.

1. The District reported summer salary in the wrong fiscal year for two members
2. The District did not report eligible extra-curricular salary for two members
3. The District reported contract salary after deduction of insurance premiums for one member
4. The District over reported contract salary for one member
5. The District did not issue written agreements for summer salary
6. The District does not actively monitor retirees who have returned to covered employment to ensure they do not exceed the maximum allowable hours
7. ND Educator License lapsed for one member

RECOMMENDATIONS AND CORRECTIVE ACTION

TFFR recommends that District personnel review the *TFFR Employer Guide* for assistance in reporting salary to TFFR. The website address is www.nd.gov/rio/TFFR/Publications. We also encourage District personnel to pursue additional training related to TFFR and TFFR reporting requirements. Tracie Volk, Minnewaukan Public School District Business Manager, has expressed an interest in obtaining additional training from our Retirement Services staff at RIO. We encourage the District to continue to pursue this opportunity. The North Dakota Association of School Business Managers also provides training, networking, and professional growth opportunities to its membership. Additional information regarding the North Dakota Association of School Business Managers can be found on their website - <http://ndasbm.com/>. Your payroll software vendor, Software Unlimited, can also provide assistance with regards to programming issues.

Finding 1:

The District reported summer salary in the wrong fiscal year for two members. Salary is reportable in the fiscal year in which the pay is earned. The salary will be moved to the correct fiscal year. Since both of the members earned a full year of service credit, there will be no correction needed to service hours. The error caused an underpayment of member/employer contributions due to contribution rate changes in 2014/15 for one member. RIO will notify the members that adjustments have been made to their accounts. (See Schedule 1 – Primary Test and Changes in Salaries and Contributions Worksheet)

Finding 2:

The District did not report eligible extra-curricular salary for two members. Coaching salary and “Family Night” salary were not reported to TFFR. This error caused a shortage of contributions. One member account will not be corrected due to the immaterial amount of the error. One member account will be corrected. RIO will notify the member that adjustments have been made to their account. (See Schedule 1 – Primary Test and Changes in Salaries and Contributions Worksheet)

Finding 3:

The District reported contract salary after deduction of insurance premiums for one member. Auto insurance premiums were deducted from contract salary in error causing salary and contributions to be under reported to TFFR. The salary amount will be corrected. RIO will notify the member that adjustments have been made to their account. (See Schedule 1 – Primary Test and Changes in Salaries and Contributions Worksheet)

Finding 4:

The District over reported contract salary for one member. District payroll records and the members teaching contract confirm that the District reported a contract salary to TFFR that was greater than the contract salary earned and paid. This error caused an overpayment of contributions. The salary amount will be corrected. RIO will notify the member that adjustments have been made to their account. (See Schedule 1 – Primary Test and Changes in Salaries and Contributions Worksheet)

Finding 5:

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

Finding 6:

The District does not actively monitor retirees who have returned to covered employment to ensure they do not exceed the maximum allowable hours. State law allows retirees who are receiving TFFR retirement benefits to return to covered employment under certain limitations. If the retiree exceeds the limitations, TFFR must discontinue payment of retirement benefits. One such limitation which must be adhered to is the General Rule – Annual Hour Limit, retirees who return to covered employment under the General Rule are restricted in the hours which can be worked based on the length of the contract issued. The District is required to report actual hours worked by retirees who have returned to covered employment to TFFR. It is

recommended that the District establish procedures to monitor retirees who have returned to covered employment to ensure proper reporting of hours to TFFR.

Finding 7:

A ND Educator License lapsed for one member. The District was unaware that the license had lapsed until notified by ESPB, the license was subsequently reinstated. To be eligible for TFFR an individual must be currently licensed to teach in North Dakota by the ESPB and contractually employed with a North Dakota school district. See the 2015-2016 TFFR Employer Guide for additional information. No corrections will be made to the member account.

The net amount of the contributions owed by the District is \$903.52. An invoice for the net amount of contributions due is included. Please reference attached Summary Schedule 2. **Please provide payment for the contributions due and provide a written response on the District's intent to correct the above findings by September 11, 2015.**

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.



Terra L. Miller Bowley
Supervisor of Audit Services

Enclosures

**REPORT ON COMPLIANCE AUDIT
FOR REPORTING AND PAYMENTS
TO THE TEACHERS' FUND FOR RETIREMENT
NEW PUBLIC SCHOOL DISTRICT
AUGUST 21, 2015**

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 RIO/TFFR Management upon completion. Independent reports are filed with the Audit Committee of the State Investment Board (SIB) quarterly. All independent reports filed with the Audit Committee of the SIB are published on the RIO website in compliance with North Dakota open records and meetings laws.

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 2012/13 through 2013/14 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 Schedule 1 - 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 Schedule 1 - 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 2012/13 through 2013/14. 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 2012/13 through 2013/14 reported by the New Public School District are 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 contract salary and service hours without a written agreement for one member.
2. The District reported service hours incorrectly for one member.
3. The District does not issue written agreements to part-time teachers and/or for summer school.

RECOMMENDATIONS AND CORRECTIVE ACTION

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

Finding 1:

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

teachers from outside the District or teachers without a continuing contract with the District, the salary is not reportable to TFFR. Contributions paid will be refunded and service hours reduced. RIO will notify the member that adjustments have been made to their account. Please reference Schedule 1 – Primary Test and Changes in Salaries and Contributions Worksheet.

Finding 2:

The District reported service hours incorrectly for one member. Corrections will be made to the member account. RIO will notify the member that adjustments have been made to their account. Please reference attached Schedule 5 - Service Hours Correction.

Finding 3: The District does not issue written agreements to part-time teachers and/or for summer school. TFFR recommends that the District provide written agreements for all members. A written agreement can be a contract, school board minutes, or other official document evidencing a contractual relationship between a teacher and a participating employer. If written agreements are not issued to a teacher from outside the District or teachers without a continuing contract with the District, the salary would not be reported.

The net amount of the contributions overpaid by the District is \$2,310.02. A check for the amount overpaid will be sent to the Business Manager. Please reference attached Schedule 2 – Salary Correction Summary for additional details. **Please provide a written response on the District's intent to correct the above findings by September 25, 2015.**

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.



Terra L. Miller Bowley
Supervisor of Audit Services

Enclosures

MEMORANDUM

TO: State Investment Board (SIB) Audit Committee

FROM: Terra Miller Bowley, Supervisor of Audit Services

DATE: September 25, 2015

SUBJECT: Audit Charter

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

In November 2012 the Audit Committee commenced a review of the current audit charter which was adopted in June 2009. Former Audit Committee vice chair Lonny Mertz with the assistance of staff undertook a review of the IIA model audit charter as well as audit charters from PERS and MDU. A revised Audit Charter which Mr. Mertz and staff believed more accurately reflected the current responsibilities of the audit committee and audit services staff was presented to the Audit Committee in September 2013 for review, discussion, and approval. The Audit Committee opted to delay further action at that time until the Supervisor of Audit Services position could be filled. It is now necessary for the Audit Committee to finish the review process initiated in November 2012.

Included is a copy of the current audit charter adopted in June 2009 as well as a copy of the revised audit charter proposed in September 2013. Please review the current and proposed audit charters for discussion at the Audit Committee meeting to be held September 25, 2015. At that time the Audit Committee may choose one of several options:

- Approve the audit charter proposed in September 2013. The approved audit charter will then be sent to RIO legal counsel for review. Following the required legal review the approved audit charter will be forwarded to the SIB for final approval.
- Request the audit charter proposed in September 2013 undergo further revisions. Staff upon direction from the Audit Committee will update the audit charter proposed in September 2013 and return to the board in November 2015 with the revised audit charter for approval.
- Essentially begin the review process initiated in November 2012 again likely repeating a similar process as was undertaken by Mr. Mertz and staff in 2013.

RIO staff recommends that the audit charter proposed in September 2013 be approved and forwarded to RIO legal counsel for review without further revision.

STATE INVESTMENT BOARD AUDIT COMMITTEE CHARTER

PURPOSE

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

AUTHORITY

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

RESPONSIBILITIES

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

Internal Audit

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

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

External Audit

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

RIO Management

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

ADMINISTRATIVE

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

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

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

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

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

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

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

DATE OF CREATION OF COMMITTEE AMENDMENTS: December 14, 1993

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

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

DRAFT

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

PURPOSE

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

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

AUTHORITY

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

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

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

COMPOSITION

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

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

The Committee will elect a Chair, a Vice Chair, and a liaison. The Chair will preside at all meetings of the Committee. In the absence of the Chair, the Vice Chair will perform the duties of the Chair. The liaison will report annually to the SIB on the results of the independent audit and at least four times a year to the SIB and TFFR board on the activities of the Committee and other pertinent information.

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

MEETINGS

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

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

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

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

RESPONSIBILITIES

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

Independent Audit

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

- Review non-audit services, if any, performed for the RIO by the independent auditors.

Audit Services

- Review the effectiveness of the Audit Services function, including compliance with The Institute of Internal Auditors' *International Professional Practices Framework for Internal Auditing consisting of the Definition of Internal Auditing, Code of Ethics and the Standards*, as adopted by the Committee.
- Review with the RIO's management and the Supervisor of Audit Services the audit charter, activities, staffing, and organizational structure of Audit Services.
- Have final authority to review and approve the annual work plan and all major changes to the plan.
- Meet with the RIO's Supervisor of Audit Services to discuss any matters that the Committee or Audit Services believes should be discussed privately (out of the presence of RIO's management and/or the independent auditors, as appropriate) and review any restrictions on the audit work.
- Participate with RIO's management in the appointment of the Supervisor of Audit Services, and evaluation of the performance of the Supervisor of Audit Services. Approve any changes in staffing; including the addition, termination, or replacement of auditors, and the approval of salary increases and/or promotions other than those authorized by the legislature.

Compliance

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

Reporting Responsibilities

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

Other Responsibilities

- Make recommendations to the North Dakota State Auditor's Office, when appropriate, as it relates to selection, evaluation, and termination of independent auditors.
- Obtain the information and training needed to enhance the committee members' understanding of the role of Audit Services and the independent auditor; the risk management process; internal controls; and a certain level of familiarity in financial reporting standards and processes for the Committee may adequately oversee.
- Serve as an open avenue of communication among the SIB; the RIO's management and Audit Services; the independent auditors; and others.
- Serve as an appropriate confidential mechanism for individuals to provide information on potentially fraudulent financial reporting or breaches of internal control.
- Inquire as to the procedure for the prevention of illegal payments, conflicts of interest, or other questionable practices. Inquire as to the existence of any illegal payments, conflicts of interest, or other questionable acts. Review the Code of Conduct, rules, and policies applicable to the RIO.
- Meet with the RIO's management to discuss any matters that the Committee or management believes should be discussed privately (out of the presence of Audit Services staff and/or the independent auditors, as appropriate) and review any restrictions on the audit work.
- Perform other activities related to this charter as requested by the SIB.
- Institute and oversee special investigations as needed.
- Review any other reports the RIO issues that relates to the Committee's responsibilities.
- Review and assess the adequacy of the Committee charter annually, requesting the SIB approval for proposed changes.
- Confirm annually that all responsibilities outlined in this charter have been carried out.

DATE OF CREATION OF COMMITTEE AMENDMENTS: December 14, 1993

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

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

MEMORANDUM

TO: State Investment Board (SIB) Audit Committee

FROM: Terra Miller Bowley, Supervisor of Audit Services

DATE: September 25, 2015

SUBJECT: Enhanced RIO Website Transparency

Included in your meeting materials is a presentation which was provided to the SIB by Executive Director/CIO Dave Hunter on August 24, 2015. The presentation reviewed the Retirement and Investment Office's (RIO) strategic investment beliefs in addition to presenting an action plan for enhancing transparency via an update to RIO's website.

This presentation has been provided for informational purposes only, however I encourage members of the SIB Audit Committee to review slide 2. Please note that in the near future the SIB Audit Committee Charter and meeting materials will be moved from their current location in the Reference Library to RIO's main website. This move will make these materials more readily available to the public, easier to find via search engines, and ultimately enhance agency and Audit Services transparency.

In preparation for these changes Audit Services has revised the language included in audit reports issued upon completion of TFFR Compliance Audits and Not In Compliance (NIC) Reviews. This has been done in an effort to ensure that the employers we audit are fully aware audit reports are published to the public and will be readily available on our website.

The revised report language is as follows:

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 RIO/TFFR Management upon completion. Independent reports are filed with the Audit Committee of the State Investment Board (SIB) quarterly. All independent reports filed with the Audit Committee of the SIB are published on the RIO website in compliance with North Dakota open records and meetings laws.

Strategic Investment Beliefs Enhanced RIO Website Transparency

August 24, 2015

NOTE: RIO will enhance website transparency in 2015 noting that this action is consistent with RIO's strategic investment plan and stated investment beliefs. Our Strategic Investment Beliefs are included on page 3 for reference.

Dave Hunter, Executive Director / CIO
ND Retirement & Investment Office (RIO)
State Investment Board (SIB)

Enhance Transparency – August 24, 2015 Update

Strategic Investment Belief / Goal:

Although SIB meetings are open to the public and RIO adheres to all applicable open records laws, RIO strives to enhance our overall level of transparency in order to expand public awareness and understanding, while instilling greater levels of trust and support with our community.

RIO's Preliminary Action Plan (which is subject to change based on IT department input):

- 1) Enhance public access to our SIB Governance Manual by adding a new hyperlink on our RIO website (which can be easily accessed simply clicking on the Governance Update section);
- 2) Post our 2015-17 Strategic Investment Plan including our Fundamental Investment Beliefs on our RIO SIB website (under the General Information section);
- 3) Enhance public access to our SIB Meeting Materials by adding a new hyperlink between our RIO website and our “Reference Library” (under the Publications and Reports section); and
- 4) Post our SIB Audit Committee Charter and Meeting Materials on our RIO website (under the SIB Board section).

Projected Implementation Timeline:

RIO Action Items 1, 2, 3 and 4 will be rolled out over the next four months (e.g. September, October, November and December for items 1, 2, 3 and 4, respectively). Our Information Technology Team (Rich Nagel) will be instrumental in hitting the targeted implementation dates.

NDRIO 2015-17 Strategic Investment Plan

Fundamental Investment Beliefs

Asset allocation decisions are the primary driver of investment returns, but the prudent use of active investment management is an important contributor towards ensuring our clients attain their stated investment objectives. SIB clients generated \$200 million of incremental income via the prudent use of active investment management over the past five years including over \$55 million of excess return in 2014.

Strategic Investment Plan

1. Reaffirm the organizational commitment to our current governance structure including a persistent awareness to the importance of continuing board education.
2. Enhance transparency and understanding of our core goals and beliefs.
 - a. Remain steadfast in our commitment to the prudent use of active investment management.
 - b. Expand awareness to downside risk management which is essential to achieving our long term investment goals.
 - c. Given actual and projected growth of SIB client assets and the heightened public awareness of the Legacy Fund, align our investment platforms to promote greater clarity and efficiency in reporting and implementing client investment policies.
3. Expand RIO's influence and ability to create positive and sustainable change by developing relationships with existing clients, organizations and legislative leaders.
 - a. Enhance community outreach to build upon public awareness and confidence.
 - b. Develop concise presentations which highlight our overall risk, return and cost control framework including our progress towards attaining our long-term goals.
4. Heighten employee engagement by promoting an open and collaborative work environment while encouraging employee participation in staff meetings, offer more opportunities to impact RIO's change initiatives and improve overall compensation levels.
 - a. RIO's ability to continue to deliver strong results is dependent on the combined efforts of our highly valuable team members.
5. Enhance our existing risk management tools and processes by developing a more robust risk management framework utilizing proven risk management solutions with a focus on portfolio construction and downside risk management (or "stress test" scenarios).
 - a. A robust risk management framework provides a foundation to understand downside risks and our ability to withstand market corrections in varying stress test scenarios.
6. Evaluate and expand the efficient use of technology in our investment program activities including risk management, compliance monitoring, client satisfaction surveys, website design and communications in order to increase overall efficiency and effectiveness.

Annual Board Planning Cycle – Biennial Agenda

Annual Board Planning Cycle Biennial Agenda

Fiscal 2015-16	July 2015	August	September	October	November	December	January 2016	February	March	April	May	June
	Gov. Offsite	Annual	Annual	Annual	Investment	No Meeting		Investment	Review		Investment	No Meeting
	- Election of	Investment	Review of	Evaluation	Director	Scheduled		Director	Budget		Director	Scheduled
	Officers,	Performance	Gov. Manual	of RIO vs.	Report on			Report on	Guidelines		Report on	
	- Appoint	Review	<i>(Done)</i>	Ends policies	Investment			Investment	for next		Investment	
Audit Comm.	- Establish	- New Board	- Annual	- Annual	Work Plan			Work Plan	Biennium		Work Plan	
- Plan Annual	Investment	Member	Board	Board				- Exec. Limit.				
Agenda	Work Plan	Orientation	Evaluation	Evaluation				& CIO Review			- Investment	
- Plan Board	- Add Invest.	Complete									Guidelines	
Education	Education											

Fiscal 2016-17	July 2016	August	September	October	November	December	January 2017	February	March	April	May	June
<i>The SIB Meeting</i>	Gov. Offsite	Annual	Annual	Annual	Investment	No Meeting		Investment	Confirm		Investment	No Meeting
<i>Agenda has not</i>	- Election of	Investment	Review of	Evaluation	Director	Planned		Director	Budget		Director	Planned
<i>been established</i>	Officers,	Performance	Gov. Manual	of RIO vs.	Report on			Report on	Guidelines		Report on	
<i>for Fiscal 2016-17</i>	- Appoint	Review	- New Board	Ends policies	Investment		- Legislative	Investment	- Legislative	- Legislative	Investment	
	Audit Comm.	- Establish	Member	- Annual	Work Plan		Update	Work Plan	Update	Update	Work Plan	
	- Plan Annual	Investment	Orientation	Board				- Exec. Limit.				
	Agenda	Work Plan	Complete	Evaluation				& CIO Review				
	- Plan Board	- Add Invest.										
	Education	Education										

- 1.) SIB Governance Policy B-7 on Governance Process states that "the Board will follow a biennial agenda which (a) completes a re-exploration of Ends policies annually (April) and (b) continually improves its performance through attention to board education and to enriched input and deliberation."
- 2.) "In the first three months of the new cycle, the Board will develop its agenda for the ensuing year. Scheduled monitoring will be used to evaluate and adjust the annual agenda as needed."
- 3.) "The Board will identify areas of education and input needed to increase the level of wisdom forethought it can give to subsequent choices. A board education plan will be developed during July and August of each year."

RIO's Mission Statement

Preface: The remaining slides in this section were presented to the SIB at our March 27, 2015 meeting. These pages are provided for reference purposes only and support management's belief that the SIB and RIO are achieving their "Ends".

Background: RIO's "Mission" is defined in SIB Governance Policy D-1 on "Ends".

"The Retirement and Investment Office serves the SIB and exists in order that:

- 1) SIB clients receive investment returns, consistent with their written investment policies and market variables, in a cost effective investment manner and under the Prudent Investor Rule.
- 2) Potential SIB clients have access to information regarding the investment services provided by the SIB.
- 3) TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner.
- 4) TFFR members have access to information which will allow them to become knowledgeable about the issues and process of retirement.
- 5) SIB clients and TFFR benefit recipients receive satisfactory services from the boards and staff of the office."

Summary: Based on SIB and TFFR client survey results and noting that every SIB client with a 3-year or 5-year track is generating positive excess return for the 3- and 5-year periods ended 6/30/2015 while adhering to prescribed risk metrics, the SIB and RIO are achieving its' stated goals and mission.

CONTRIBUTION RATES

Member and Employer contribution rates are **NOT CHANGING** for the 2015-16 school year.

Member contribution rate	11.75%
Employer contribution rate	12.75%

GASB STATEMENT 68 UPDATE

The audited fiscal year [2014 Schedules of Employer Allocations and Pension Amounts by Employer](#), and the [GASB 68 Disclosure Template - 2015](#) are now available on our website. Employers and auditors can use this information to complete your 2015 financials.

INTEREST CHARGED ON PRIOR FISCAL YEAR CORRECTIONS

One of the changes resulting from TFFR's recent experience study is the assumed investment return rate. (See August 2015 [Report Card](#) newsletter.) This rate was reduced from 8% to 7.75%. This is also the rate charged for interest on prior fiscal year employer corrections. Effective July 1, 2015, if TFFR determines that an employer underpaid contributions for a prior year during an audit or account review, you will be charged 7.75% interest, not 8%, on the contributions owed.

COURT DECIDES SAME GENDER MARRIAGE ISSUE

A recent US Supreme Court decision requires that same gender marriages be recognized in all states and that married same gender couples receive all the legal rights and benefits afforded married opposite gender couples. If any of your TFFR employees need to update their marital status or designation of beneficiary, please have them contact Shelly at the administrative office.

NEW MEMBER REPORTING REQUIREMENTS

A [Member Action form](#) must be completed when a participating employer hires a new teacher. 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 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.

NEW EMPLOYER GUIDE

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

E-MAIL ADDRESSES

TFFR is still experiencing some issues with incorrect email addresses. If your sendit.nodak.edu e-mail extension has changed, please provide your new e-mail address to Darlene at the administrative office. Her email address is daroppel@nd.gov.

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 TFFR 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 2015-16 school year, all subject areas are deemed critical. A critical shortage area exception may also be requested based on geographic area.

TFFR FORMS

- ❖ Please submit a [Notification of School District Changes form](#) if there are any changes in demographics or contact (i.e. superintendent/business manager) information.
- ❖ If you are employing a new teacher or have teachers with a change in their name or address, a new [Member Action form](#) is needed.
- ❖ If you have employed 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.

These forms and others are available on our [website](#).

REPORT CARD HIGHLIGHTS

The August 2015 edition of the [Report Card](#) Newsletter was recently published and can be viewed on our website. The newsletter contains the following highlights:

➤ **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.

➤ **New Outreach Program Added**

Group Benefits Counseling Sessions have been added to TFFR’s lineup of pension education resources.

➤ **TFFR Board Approves Updated Assumptions**

TFFR performs an experience study every five years to determine if the plan’s long term economic and demographic assumptions are reflecting actual experience. As a result of this study the TFFR Board has revised some of the TFFR plan assumptions.

