

**STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
FEBRUARY 25, 2011 MEETING**

COMMITTEE MEMBERS PRESENT: Becky Dorwart, Chair
Lonny Mertz, Vice Chair
Mike Gessner, TFFR Board
Mike Sandal, PERS Board
Cindy Ternes, Workforce Safety & Insurance

STAFF PRESENT: Connie Flanagan, Fiscal and Investment Officer
Bonnie Heit, Office Manager
Les Mason, Internal Audit Supervisor
Dottie Thorsen, Internal Audit

CALL TO ORDER:

Ms. Becky Dorwart, Chair, called the State Investment Board (SIB) Audit Committee meeting to order at 1:00 p.m., on Friday, February 25, 2011, at Workforce Safety & Insurance, 1600 E Century Ave, Bismarck ND.

A quorum was present for the purpose of conducting business.

AGENDA:

The Audit Committee considered the February 25, 2011 agenda.

MS. TERNES MOVED AND MR. SANDAL SECONDED TO APPROVE THE FEBRUARY 25, 2011 AGENDA.

**AYES: MS. DORWART, MR. SANDAL, MS. TERNES, MR. MERTZ, AND MR. GESSNER
NAYS: NONE**

MOTION CARRIED.

MINUTES:

The Audit Committee considered the minutes from the November 19, 2010 meeting.

MR. GESSNER MOVED AND MR. MERTZ SECONDED TO APPROVE THE NOVEMBER 19, 2010 MINUTES AS WRITTEN.

**AYES: MR. GESSNER, MS. DORWART, MR. SANDAL, MS. TERNES, AND MR. MERTZ
NAYS: NONE**

MOTION CARRIED.

FISCAL 2011 THIRD QUARTER INTERNAL AUDIT ACTIVITIES:

Mr. Mason reported on internal audit activities for the third quarter of fiscal year 2011.

Office Administration - Mr. Mason will provide the Executive Limitations report for the six month period ending June 30, 2011 and at calendar year end for 2011. The June 30, 2011 report will also include a review of the implementation of the recommendations by Clifton Gunderson as a result of the Performance Audit of the Retirement and Investment Office (RIO).

School District Reporting - Mr. Mason informed the Committee the objective is to complete 35 school districts during fiscal 2011. To date, 7 audits have been completed, 6 are in progress, and information on 10 additional school districts has been requested and/or received. Another 15-20 requests for information is also scheduled to be sent.

Mr. Mason also examined contracts and payroll information for two schools who were not in compliance with the definition of salary during their last audit. A sample of members was requested and reviewed and the school districts have made the necessary changes and are now in compliance with reporting of salaries.

TFFR File Maintenance - Mrs. Thorsen also reported on the TFFR file maintenance audit for October, November, and December 2010. There were no exceptions noted.

Performance Audit - Ms. Connie Flanagan, Fiscal and Investment Officer, updated the Committee on implementation of the recommendations as a result of the Performance Audit.

The SIB Policy Review Committee, Mr. Sandal, Chair, Treasurer Schmidt, Ms. Ternes, and Mr. Corneil (absent), met on December 15, 2010 to review the implementation of the recommendations. The Policy Committee submitted the following recommendations for the SIB's consideration and approval at the SIB's January 28, 2011 meeting.

Recommendation #1 - Enhance the Executive Limitations Policy pertaining to conflict of interest.

Recommendation #6 - Develop a Strategic Plan to provide direction and goals for RIO.

Recommendation #8 - Implement a formal valuation policy for all assets.

Recommendation #9 - Develop compliance and monitoring procedures which include requesting external asset managers provide compliance reports on a monthly basis, maintaining a log of compliance related issues, and developing recommendations for subsequent actions.

The following recommendations will be implemented. No action was needed by the SIB.

Recommendation #3 - Implement steps set forth in the selection process for external managers mandated by the governance manual of the SIB and maintain adequate documentation over the process in order to provide a more transparent process. No policy changes made. The SIB discussed the Due Diligence Executive

Summary form and seemed comfortable that the form when completed, will cover existing policy requirement and they will provide feedback to Mr. Geissinger if additional information is desired.

Recommendation #7 - Implement a formal watch list and written policy and criteria, setting the parameters for determining if managers need to be added or removed from the list. The SIB agreed current policy is adequate.

Recommendation #10 - Review statement of Auditing Standards No. 70 (SAS 70) reports on a more detailed level to ensure no findings were identified that might impact user controls and the overall control environment of the service organizations being used by RIO. Staff will include this as part of the administrative procedures/policies in both #8 and #9 above.

Recommendation #11 - Consider a high level position, such as a Deputy Chief Investment Officer, to provide continuity to the operation of RIO, enhanced formal compliance reports, assist in due diligence/screening of prospective investment managers and assist in continuous monitoring of investment managers. No action was necessary by the Policy Committee or the SIB.

The following recommendations were tabled as additional work is needed.

Recommendation #2 - Update Executive Limitation Policy to address new Securities and Exchange Commission (SEC) regulations.

Recommendation #4 - Consider the prudence of partaking in discussions with the external manager to negotiate more favorable terms.

Recommendation #5 - Enhance disclosures of certain investment vehicles and their categorization with asset classes.

Mr. Mason stated he has not done any review of the progress on implementing the recommendations at this time. A full report will be included as part of the Executive Limitations review for the period ending June 30, 2011.

Ms. Dorwart congratulated the Committee and staff for their oversight and work on implementing the recommendations.

MR. SANDAL MOVED AND MR. GESSNER SECONDED TO APPROVE THE INTERNAL AUDIT ACTIVITIES REPORT FOR THE THIRD QUARTER OF 2011.

**AYES: MS. TERNES, MR. MERTZ, MS. DORWART, MR. SANDAL, AND MR. GESSNER
NAYS: NONE**

MOTION CARRIED

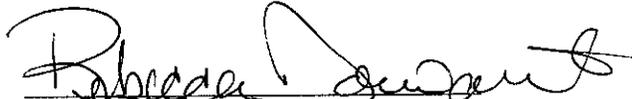
OTHER:

The next Audit Committee meeting is scheduled for May 20, 2011, 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 1:25 p.m.

Respectfully Submitted:


Ms. Becky Dorwart, Chair
SIB Audit Committee


Bonnie Heit
Secretary to the Audit Committee