

**STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
MAY 20, 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
John Geissinger, Executive Director
Bonnie Heit, Office Manager
Fay Kopp, Dep. Executive Director
Les Mason, Internal Audit Supervisor
Dottie Thorsen, Internal Audit
Josh Wiens, Eide Bailly

CALL TO ORDER:

Ms. Becky Dorwart, Chair, called the State Investment Board (SIB) Audit Committee meeting to order at 1:05 p.m., on Friday, May 20, 2011, at the Peace Garden Room, State Capitol, Bismarck ND.

A quorum was present for the purpose of conducting business.

AGENDA:

The Audit Committee considered the May 20, 2011 agenda.

MS. TERNES MOVED AND MR. SANDAL SECONDED TO APPROVE THE MAY 20, 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 February 25, 2011 meeting.

MR. GESSNER MOVED AND MR. SANDAL SECONDED TO APPROVE THE FEBRUARY 25, 2011 MINUTES AS WRITTEN.

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

MOTION CARRIED.

AUDIT SCOPE AND APPROACH FY 2011:

Mr. Josh Wiens, Eide Bailly, reviewed the firm's audit scope and approach of the Retirement and Investment Office (RIO) for FY 2011. Mr. Wiens stated the audit scope and approach will be similar to what was done in 2010. A copy of their report is on file at the Retirement and Investment Office.

MR. GESSNER MOVED AND MR. MERTZ SECONDED TO APPROVE EIDE BAILLY'S REPORT.

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

NAYS: NONE

MOTION CARRIED.

FY 2011 THIRD QUARTER INTERNAL AUDIT ACTIVITIES:

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

Performance Audit - Mr. Mason stated at the September 23, 2011 Audit Committee meeting he will provide a review of the implementations of the recommendations by Clifton Gunderson as a result of the performance audit of RIO. The review will be in conjunction with the Executive Limitations report for the six month period ending June 30, 2011 and FY end 2011.

School District Reporting - Mr. Mason informed the Audit Committee the FY 2011 objective was to audit 35 school districts. To date, 11 audits have been completed, nine are in progress, two are in review, and information on 16 additional school districts has been requested. Mr. Mason is hoping to have 20 completed by the end of May with an additional 6-10 completed by the end of the fiscal year.

The Audit Committee discussed alternatives to assist staff in reaching the goals established by both parties for the auditing of the school districts. The Audit Committee directed staff to report back to them at the September 23, 2011 on what changes, if any, need to be made to the expectations and goals going forward.

TFFR File Maintenance - Ms. Thorsen also reported on the TFFR file maintenance audit for January, February, and March 2011. There were no exceptions noted.

MS. TERNES MOVED AND MR. GESSNER SECONDED TO ACCEPT THE INTERNAL AUDIT ACTIVITIES REPORT FOR THE THIRD QUARTER OF FY 2011.

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

NAYS: NONE

MOTION CARRIED.

WORK PLAN FY 2012: Mr. Mason reviewed the Internal Audit Services unit work plan for FY 2012.

MR. SANDAL MOVED AND MR. MERTZ SECONDED TO APPROVE THE FY 2012 AUDIT WORK PLAN.

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

MOTION CARRIED.

The Audit Committee also reviewed their 2011-12 meeting schedule.

MR. GESSNER MOVED AND MR. MERTZ SECONDED TO ACCEPT THE 2011-12 AUDIT COMMITTEE MEETING SCHEDULE.

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

MOTION CARRIED.

WESTRIDGE SETTLEMENT: Mr. John Geissinger, Executive Director, updated the Audit Committee on the Westridge/WG Trading settlement. The Receiver distributed \$63.9 million back to the State of North Dakota at the end of April 2011. With this distribution, the SIB has recovered 85% of the capital account or \$291.4 million. The SIB had a total commitment of \$302.8 million invested with Westridge/WG Trading.

The SIB, at its April 15, 2011 meeting, directed the Attorney General's Office to pursue further legal action on behalf of the SIB and its beneficiaries to obtain as much of the assets that were stolen from the State of North Dakota by Westridge/WG Trading officials as possible. On behalf of the State of North Dakota, the law firm of Jenner & Block has filed a brief with the Second Circuit Court of Appeals. The State of North Dakota and the other limited partners are appealing the District Court's initial ruling. The District Court approved a pro rata net investment distribution plan. It is North Dakota's position that the District Court incorrectly determined the amount of North Dakota's distribution, an audited limited partner, in relation to the un-audited noteholders. The appellee has 60 days to respond.

North Dakota has not filed any legal action against Deloitte & Touche, the firm responsible for auditing the financial statements of Westridge/WG Trading at this time. Mr. Geissinger will monitor this aspect and pursue any options that become available to the State of North Dakota.

LEGISLATION:

Mr. Geissinger and Ms. Fay Kopp, Deputy Executive Director, updated the Audit Committee on legislative issues affecting RIO.

ANNUAL MEETINGS WITH STAFF:

As stated in the Committee's charter, on an annual basis the Audit Committee is to meet in separate sessions with RIO's executive management and Internal Audit staff to ensure the reliability and integrity of financial and operating information; compliance with policies, plans, procedures, pertinent laws and regulations, and ethical conduct; the safeguarding of assets; the economical and efficient use of resources; and the effectiveness of achieving desired results from operations.

The Committee met with Mr. Geissinger and Ms. Kopp at 2:15 p.m.

Mr. Mason and Ms. Thorsen were absent.

The Committee met with Mr. Mason and Ms. Thorsen at 3:00 p.m.

Mr. Geissinger and Ms. Kopp were absent.

The session concluded at 3:20 p.m.

OTHER:

The next Audit Committee meeting is scheduled for September 23, 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 3:30 p.m.

Respectfully Submitted:


Ms. Becky Dorwart, Chair
SIB Audit Committee



Bonnie Heit
Secretary to the Audit Committee