

**STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
NOVEMBER 18, 2011 MEETING**

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

STAFF PRESENT: Connie Flanagan, Fiscal 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

OTHERS: Josh Wiens, EideBailly

CALL TO ORDER:

Ms. Dorwart called the State Investment Board (SIB) Audit Committee meeting to order at 1:00 p.m., on Friday, November 18, 2011, at Workforce Safety & Insurance, 1600 E. Century Avenue, Bismarck ND.

A quorum was present for the purpose of conducting business.

AGENDA:

The Audit Committee considered the November 18, 2011 agenda. Following the amendment of the agenda,

MS. TERNES MOVED AND MR. SANDAL SECONDED TO APPROVE THE AGENDA FOR THE NOVEMBER 18, 2011 MEETING.

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 September 23, 2011 meeting.

MR. GESSNER MOVED AND MS. TERNES SECONDED TO APPROVE THE SEPTEMBER 23, 2011 MINUTES AS WRITTEN.

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

NAYS: NONE

MOTION CARRIED

FINANCIAL AUDIT REPORT JUNE 30, 2011:

Mr. Wiens reviewed the financial audit report of the Retirement and Investment Office (RIO) for the year ended June 30, 2011. EideBailly issued an unqualified opinion.

Mr. Wiens indicated a new management letter will be reissued to correct the descriptions on the "Corrected and Uncorrected Misstatements" section.

MR. SANDAL MOVED AND MR. GESSNER SECONDED TO ACCEPT THE FINANCIAL AUDIT REPORT FOR THE YEAR ENDING JUNE 30, 2011 AS PRESENTED BY EIDEBAILLY.

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

NAYS: NONE

MOTION CARRIED

SIB POLICY REVIEW COMMITTEE:

Ms. Flanagan reviewed the action of the SIB Investment Policy Committee at their November 3, 2011 meeting. Ms. Flanagan reviewed the final three recommendations that were yet to be addressed by the Committee as a result of the Performance Audit of RIO. Ms. Flanagan reviewed Recommendation #2 - Update Executive Limitation Policy to address new SEC regulations, Recommendation #4 - Consider the prudence of partaking in discussions with the external managers to negotiate more favorable terms, and Recommendation #5 - Enhance disclosures of certain investment vehicles and their categorization with asset classes.

The first reading of the revised policies will be presented to the SIB at their November 18, 2011 meeting and the second reading and adoption will take place at their January 27, 2012 meeting.

The Audit Committee felt that all of the recommendations from the Performance Audit have been addressed and resolved. The Audit Committee also agreed continued monitoring of the recommendations is necessary and they will do so through the Executive Limitations audit which is reported to them on an annual basis by Mr. Mason. The Audit Committee felt it is beneficial to continue monitoring the progress of the recommendations for their benefit as well as RIO's in the event questions should surface from external entities.

Mr. Mason reviewed his audit of the implementation of the recommendations from the Performance Audit.

MS. TERNES MOVED AND MR. GESSNER SECONDED TO ACCEPT THE REPORT ON THE STATUS OF IMPLEMENTATION OF THE RECOMMENDATIONS FROM THE PERFORMANCE AUDIT OF RIO.

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

NAYS: NONE

MOTION CARRIED

The Audit Committee thanked the staff of RIO for their assistance throughout the Performance Audit of RIO and also with implementation of the recommendations.

FISCAL 2012 FIRST QUARTER INTERNAL AUDIT ACTIVITIES:

Office Administration - Mr. Mason reported he will be testing executive performance for the calendar year ending December 31, 2011 and will also review the progress of the recommendations from the Performance Audit. The findings will be incorporated into the Executive Limitations Report and will be provided to the Audit Committee at their February 17, 2012 meeting.

School District Audit Reports - Mr. Mason reported for the first quarter, four audits were completed. For the second quarter, two have been completed, two are ready to be finalized, four are in progress, and five more are anticipated to be completed which would bring the total to 13. Mr. Mason felt the auditing of the school districts is on track and is hopeful the goal of auditing 35 school districts by fiscal year end will be met.

TFFR File Maintenance - Ms. Thorsen reported on the File Maintenance Audit. Ms. Thorsen reviewed table reports for the period of July through September 2011. There were no exceptions noted.

Mr. Mason also reviewed the Internal Audit Division's budgeted hours for the period of July 1 - September 30, 2011. After discussion, Mr. Mason will be sending out a revised report which will reflect the budgeted hours determined from the discussion at the September 23, 2011 meeting.

MR. GESSNER MOVED AND MR. SANDAL SECONDED TO ACCEPT THE INTERNAL AUDIT ACTIVITIES REPORT FOR THE FIRST QUARTER OF 2012.

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

NAYS: NONE

MOTION CARRIED

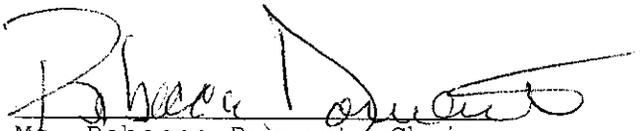
OTHER:

The next Audit Committee meeting is scheduled for February 17, 2012, at 1:00 p.m. at Workforce Safety & Insurance, 1600 E. Century, Bismarck, ND.

ADJOURNMENT:

With no further business to come before the Audit Committee, Ms. Dorwart adjourned the meeting at 1:55 p.m.

Respectfully Submitted:


Ms. Rebecca Dorwart, Chair
SIB Audit Committee


Bonnie Heit
Secretary to the Audit Committee