

**STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
SEPTEMBER 27, 2013 MEETING**

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

COMMITTEE MEMBERS ABSENT: Lonny Mertz, Vice Chair

STAFF PRESENT: Bonnie Heit, Assistant to the Audit Committee
Fay Kopp, Interim Executive Director
Dottie Thorsen, Internal Auditor

CALL TO ORDER:

Ms. Dorwart called the State Investment Board (SIB) Audit Committee meeting to order at 2:00 p.m., on Friday, September 27, 2013, at Workforce Safety & Insurance, 1600 E Capitol Ave., Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

The Audit Committee considered the September 27, 2013, agenda.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE SEPTEMBER 27, 2013, MEETING.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. MERTZ

MINUTES:

The Audit Committee considered the minutes from the May 17, 2013, meeting.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE MAY 17, 2013, MINUTES AS WRITTEN.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. MERTZ

ELECTION OF OFFICERS:

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. GESSNER TO CONTINUE WITH THE CURRENT SLATE OF OFFICERS FOR THE AUDIT COMMITTEE FOR THE 2013-14 FISCAL YEAR; MS. DORWART, CHAIR, MR. MERTZ, VICE CHAIR, AND MR. GESSNER, LIAISON TO THE SIB.

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

AUDIT ACTIVITIES REPORT:

Ms. Kopp and Ms. Thorsen reviewed internal audit activities for the July 1, 2012 - June 30, 2013 period.

The Executive Limitations Audit was completed on the Interim Chief Investment Officer for the period of July 1, 2012 - December 31, 2012. There were no exceptions noted.

Forty-five school district audits were completed. The objective was to complete forty-three audits. Of the 45 audits completed, six districts were not in compliance, one district was generally in compliance, and 38 districts were in compliance with state law and state administrative code. Follow-up reviews were also completed on four school districts that were not in compliance from the previous year.

The Internal Audit Division is three and one half years into the third cycle; 108 audits have been completed with 64 remaining. The long-range goal is to audit each school district over a five year period.

Internal audit staff have also started developing a Policy and Procedure Manual for the school district audits.

The Benefit Payments Audit was completed; deaths, long outstanding checks, purchase of service, and refunds were reviewed to determine that established policy and procedures were being followed by the Retirement Services Division. There were no exceptions noted.

The TFFR File Maintenance Audit was completed and changes made to TFFR member account data by RIO employees was tested. One exception was noted.

Ms. Thorsen also covered budgeted hours to actual hours for the Internal Audit Division.

The Audit Committee was very pleased with the progress of the Internal Audit Division and thanked staff for their efforts in accomplishing the goals of the work plan for the period of July 1, 2012 - June 30, 2013.

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE INTERNAL AUDIT ACTIVITIES REPORT FOR JULY 1, 2012 - JUNE 30, 2013.

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

AUDIT COMMITTEE REPORT TO SIB:

The Audit Committee report to the SIB for the period of July 1, 2012 - June 30, 2013 was reviewed by the Audit Committee.

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE AUDIT COMMITTEE'S ANNUAL REPORT TO THE SIB.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. MERTZ

AUDIT PROGRESS REPORT:

Ms. Kopp reviewed the work plan for the period of July 1, 2013 - June 30, 2014, and discussed with the Audit Committee prioritization of projects and whether or not the work plan would need to be amended given the vacancy within the Internal Audit Division.

After discussion, the Audit Committee concurred the existing work plan that was established and accepted at their May 17, 2013, meeting, for the period of July 1, 2013 - June 30, 2014 should not be formally amended. However, it is recognized that the audit supervisor vacancy will have an impact on the plan and it is likely the 2013-14 annual work plan goals will not be met. Since there will be less time available to spend on regular audit coverage, adjustments will be made as the Audit Committee and staff feels is appropriate.

ED/CIO SEARCH:

Mr. Sandal updated the Audit Committee on the ED/CIO search for RIO. The SIB, at their September 27, 2013, meeting took action to offer the position to Mr. Deric Righter and directed Korn/Ferry to proceed with recruitment efforts of Mr. Righter.

INTERNAL AUDIT SUPERVISOR POSITION:

The Audit Committee and staff discussed the vacancy of the Supervisor of Internal Audit Division of RIO, the current governance structure of the SIB, TFFR, and RIO programs, and the overall audit function within RIO. After discussion, the Audit Committee and staff determined it would be best to delay any action on filling the Supervisor of Internal Audit Division position until the ED/CIO of RIO is in place to allow this individual the opportunity to give their perspective and to also be involved in the process. If the ED/CIO position is not filled in the near future, Ms. Kopp will work with the Audit Committee to replace the audit supervisor position.

AUDIT COMMITTEE CHARTER:

Mr. Mertz and staff have been working on updating the Audit Committee's charter. After discussion, the Audit Committee and staff determined it would be better to delay any action on the charter until the audit function of RIO is reviewed and discussed with all entities involved.

OTHER:

Ms. Kopp notified the Audit Committee October 15, 2013, will be Ms. Connie Flanagan's last day serving as RIO's Fiscal & Investment Officer. Ms. Kopp reviewed the interim office action plan.

The next Audit Committee meeting is scheduled for November 22, 2013, at 1:00 p.m. at the State Capitol, Peace Garden Room.

ADJOURNMENT:

With no further business to come before the Audit Committee, Ms. Dorwart adjourned the meeting at 3:35 p.m.

Respectfully Submitted:



Ms. Rebecca Dorwart, Chair
SIB Audit Committee



Bonnie Heit
Assistant to the Audit Committee