

**STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
FEBRUARY 26, 2015, MEETING**

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

STAFF PRESENT: Bonnie Heit, Assistant to the Audit Committee
David Hunter, Executive Director/CIO
Fay Kopp, Deputy Executive Director/CRO
Terra Miller Bowley, Suprv Audit Services
Dottie Thorsen, Internal Auditor

CALL TO ORDER:

Ms. Dorwart called the State Investment Board (SIB) Audit Committee meeting to order at 3:35 p.m., on Thursday, February 26, 2015, at Workforce Safety & Insurance, 1600 East Century Ave., Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO APPROVE THE AGENDA FOR THE FEBRUARY 26, 2015, MEETING AS DISTRIBUTED.

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

MINUTES:

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO APPROVE THE NOVEMBER 20, 2014, MINUTES AS DISTRIBUTED.

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

AUDIT ACTIVITIES REPORT:

Ms. Miller Bowley updated the Audit Committee on Internal Audit activities for the period of October 1, 2014 through December 31, 2014.

School District Compliance Audit Reports - As of December 31, 2014, four school district audits were completed, five school district audits were in progress, and one not in compliance follow-up review was in progress. Twelve additional school districts were notified of upcoming audits and information was received from five of those school districts.

Audit Committee members were provided a school district audit progress and status report. Also included in the report was a listing of the 44 school district audits remaining in the third cycle. The goal is to have the third cycle completed by the end of 2015.

The Internal Audit Division has also been working with RIO's external auditors, CliftonLarsonAllen on the GASB 68 Census Data Audits. Field work on 17 school districts was conducted January 19 - 30, 2015.

File Maintenance Audit Report - The TFFR File Maintenance Audit was also completed for the months of October, November, and December 2014. Audit tables are generated and stored indicating any file maintenance changes made to member accounts. No exceptions were noted.

Executive Limitations - A preliminary review of the Executive Director/CIO's level of compliance with SIB Governance Manual Executive Limitations policies was completed in November 2014. The final report was completed in February 2015 and included in the Audit Committee's February 26, 2015, meeting materials for review.

Audit Services also conducted an agency survey of the Executive Director/CIO in the areas of leadership, communication, and valuing employees. Survey results will be incorporated into the final Executive Limitations audit report.

Staff Relations - An exit interview was conducted with Ms. Denise Weeks per SIB Governance Manual Executive Limitation Policy A-2. Ms. Weeks voluntarily terminated her employment with RIO on December 19, 2014. The policy states that staff upon termination of employment with RIO be given the opportunity to complete an employment questionnaire and exit interview with the Supervisor of Audit Services.

Professional Development - Audit Services reinstated its membership with The Institute of Internal Auditors in October 2014. Ms. Miller Bowley also updated the Committee on training taken by staff during the quarter.

The Audit Committee was also provided a budgeted hour's report for the quarter ending December 31, 2014. The report details the Audit Divisions hours spent on employer audits, agency audits, administrative time, training, and annual/sick leave, etc.

IT WAS MOVED BY MS. RIEDMAN AND SECONDED BY MR. SANDAL AND CARRIED BY A VOICE VOTE TO ACCEPT THE SECOND QUARTER INTERNAL AUDIT ACTIVITIES REPORT FOR THE PERIOD OF OCTOBER 1, 2014, THROUGH DECEMBER 31, 2014.

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

NAYS: NONE

MOTION CARRIED

AUDIT ACTIVITIES UPDATE:

Ms. Miller Bowley updated the Audit Committee on audit services activities for the period of January 1, 2015, through February 20, 2015.

Three school district audits have been completed; seven audits are in progress, one not in compliance follow-up review has been completed, and two not in compliance follow-up reviews are in progress. All audits with information requested via an audit notification prior to November 2014 are in progress or completed.

Audit Services has been asked by the Retirement Services Division to assist in verifying salaries reported to TFFR. Each year Retirement Services during the third quarter of the fiscal year undertakes an effort to verify salaries reported to TFFR for prior years. Salary reconciliations will be completed on 50 member accounts representing 41 school districts for the fiscal years 2012-13 and 2013-2014.

CliftonLarsonAllen representatives completed the GASB 68 Census Data Audit fieldwork on 17 school districts January 19-30, 2015. The Audit Services division met with CliftonLarsonAllen on January 29, 2015, to provide office support. Ms. Miller Bowley distributed a preliminary report from CliftonLarsonAllen which detailed how many employees were tested at each of the on-site visits. Two errors were noted. CliftonLarsonAllen will issue a final report in the near future.

Ms. Miller Bowley also informed the Audit Committee CliftonLarsonAllen has been awarded the financial statement audit contract for RIO and PERS for the June 30, 2015, 2016, and 2017 fiscal years by the Office of the State Auditor.

Ms. Miller Bowley stated the Executive Limitations Audit was completed in February 2015 for the period of January 1, 2014, through December 31, 2014. A second staff survey was also completed. The purpose of the survey was to provide employees an opportunity to evaluate their immediate supervisor as well as other members of management.

Ms. Miller Bowley also indicated a professional development plan has been finalized for the Supervisor of Internal Audit. Ms. Miller Bowley will begin pursuing a Certified Internal Auditor and Certified Government Auditing Professional designations through the Institute of Internal Auditors.

GASB 67/68 UPDATE:

Ms. Kopp updated the Audit Committee on the implementation and education efforts for the new GASB 67 and 68 pension reporting standards by staff from TFFR, PERS, and the State Auditor's Office over the last year.

Ms. Ternes indicated she attended the December 11, 2014, training by Mr. Eric Berman, a governmental audit consultant from Eide Bailly. Mr. Berman was hired to provide employer and auditor training on the new GASB requirements. Ms. Ternes stated the training was very good.

EXECUTIVE LIMITATIONS AUDIT:

Ms. Miller Bowley reviewed the Executive Director/CIO's level of compliance with the SIB Governance Manual Executive Limitation policies (A-1 through A-11) for the calendar year beginning January 1, 2014, and ending December 31, 2014. Audit Services conducted examinations of documentation, facilitated a survey of the SIB and staff, and interviewed key personnel.

Ms. Miller Bowley informed the Audit Committee audit results indicate that the Executive Director/CIO is in compliance with the SIB Governance Manual Executive Limitation policies A-1 through A-11.

IT WAS MOVED BY MS. TERNES AND SECONDED BY MS. RIEDMAN AND CARRIED BY A VOICE VOTE TO ACCEPT THE EXECUTIVE LIMITATIONS AUDIT REPORT FOR THE PERIOD OF JANUARY 1, 2014, THROUGH DECEMBER 31, 2014.

**AYES: MR. GESSNER, MS. RIEDMAN, MR. SANDAL, MS. TERNES, AND MS. DORWART
NAYS: NONE
MOTION CARRIED**

Ms. Miller Bowley reviewed the survey process of the Executive Director/CIO by the SIB which was spearheaded by the SIB Executive Review Subcommittee in January 2015. The Subcommittee membership included Mr. Rob Lech, Chair, Ms. Ternes, and Mr. Sandal. The SIB evaluated the Executive Director/CIO in the following categories: board meetings, board relations, office operations, investment programs and program operations, public/legislative relations, and professional skills/development. Audit Services facilitated the survey and the results of the Ends and Compliance with Executive Limitations survey indicate that the Executive Director/CIO is meeting the expectations of the SIB in all six categories.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MS. RIEDMAN TO ACCEPT THE STATE INVESTMENT BOARD EXECUTIVE DIRECTOR/CIO SURVEY RESULTS OF THE ENDS AND COMPLIANCE WITH EXECUTIVE LIMITATIONS.

**AYES: MR. SANDAL, MS. TERNES, MS. RIEDMAN, MR. GESSNER, AND MS. DORWART
NAYS: NONE
MOTION CARRIED**

The Executive Limitations audit report will be provided to the SIB at their February 27, 2015, meeting.

ANNUAL MEETINGS WITH STAFF:

The Audit Committee met separately with staff and RIO management. The Audit Committee is satisfied that the Audit Division and RIO Management are working cohesively within the organization and are very pleased with the progress.

MEETING SCHEDULE:

Ms. Miller Bowley distributed a draft of the 2015-16 Audit Committee meeting schedule. The Audit Committee is to let Ms. Miller Bowley know if the dates and times work for them.

OTHER:

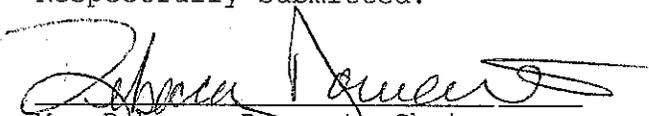
Ms. Miller Bowley will be reporting to the SIB at their regularly scheduled meetings on the activities of the Audit Committee. Mr. Gessner, as liaison to the SIB, will continue to serve as backup.

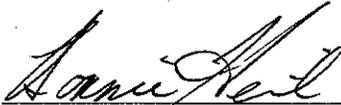
The next Audit Committee meeting is scheduled for May 22, 2015, at 1:00 p.m. at the State Capitol, Peace Garden Room, Bismarck ND.

ADJOURNMENT:

With no further business to come before the Audit Committee, Ms. Dorwart adjourned the meeting at 5:02 p.m.

Respectfully Submitted:


 Ms. Rebecca Dorwart, Chair
 SIB Audit Committee


 Bonnie Heit
 Assistant to the Audit Committee

