STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
FEBRUARY 25, 2016, 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, Assist to the Audit Committee
David Hunter, ED/CIO
Fay Kopp, Dep ED/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 3:00 p.m., on Thursday, February 25, 2016, at the State Capitol, Peace Garden Room, Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

IT WAS MOVED BY MS. TERNES AND SECONDED BY MS. RIEDMAN AND CARRIED ON A VOICE VOTE TO APPROVE THE AGENDA FOR THE FEBRUARY 25, 2016, 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. SANDAL AND SECONDED BY MS. RIEDMAN AND CARRIED ON A VOICE VOTE TO APPROVE THE NOVEMBER 19, 2015, MINUTES AS DISTRIBUTED.

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

AUDIT SERVICES ACTIVITIES REPORT:

Ms. Miller Bowley reviewed Audit Service activities for the period of October 1, 2015 - December 31, 2015.

Nine employer audits were completed in the second quarter. Fifteen employer audits have been completed year to date including fourteen TFFR compliance Audits and one Not in Compliance review. Eight TFFR compliance Audits are currently in progress and represent the end of the third audit cycle. Audit Services intends to focus on concluding the third audit cycle by late 2016.

The TFFR File Maintenance audit was completed and no exceptions were noted.

The audit on Executive Limitations for calendar year 2015 commenced in November 2015. Ms. Miller Bowley also stated an organization wide employee survey was administered in December 2015, which provides employees the opportunity to evaluate the effectiveness of the Executive Director/CIO in the areas of leadership, communication, and valuing employees. This survey will be incorporated into the final Executive Limitations audit report.

The Executive Director/CIO requested Audit Services review the reasonableness of the Investment Performance Summary table in RIO's CAFR for the last five fiscal years ended June 30, 2015 and annualized returns for the 3, 5, 10, and 20-year periods ended June 15, 2015. Audit Services intends to focus on concluding the review by the end of the current fiscal year.

Audit Services continues to pursue professional development opportunities via the Institute of Internal Auditor's local chapter, Central Nodak.

The Audit Committee discussed training/mentoring opportunities for personnel changes that have occurred with Business Managers. RIO personnel make every attempt to contact the new Business Managers upfront and assist where needed. RIO personnel will audit the employer sooner rather than later to catch any errors up front. An Employer Reporting Manual is available on RIO's website as a reference for new Business Managers as well as existing. RIO also holds an annual training session for all the Business Managers and also tries to reach out to as many of the Business Managers as possible at the fall Business Managers workshops. RIO also works with the State Business Manager Association to provide training to the Business Managers throughout the year as well as the School Boards Association. Business Managers are also encouraged to come to the office and RIO personnel will provide additional training. The School Boards Association has implemented a Business Manager Certification Program and RIO personnel have been providing input and assisting with the program.

Mr. Sandal suggested some sort of succession plan should be in place in the event there is a shortage of personnel in Audit Services. Ms. Miller Bowley stated in the event of a shortage of staff, priorities would have to be determined. Mr. Sandal suggested a formal succession plan be put in place so the audit schedule is maintained. The Audit Committee also requested the policy/procedures manual for Audit Services be made a priority in the upcoming fiscal year.

IT WAS MOVED BY MS. RIEDMAN AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO ACCEPT THE OCTOBER 1, 2015 - DECEMBER 31, 2015, AUDIT SERVICES ACTIVITIES REPORT.

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

AUDIT PLAN VS ACTUAL ACTIVITIES:

Ms. Miller Bowley provided an update on the current status of the following audit activities versus the work plan proposed in May 2015, specifically the actual hours dedicated to the audits thus far versus the anticipated hours: Employer Audits, Regional Education Associations Audits, Benefits Payment Audit, TFFR File Maintenance Audit, Annual Salary Verification Project, TFFR Cost Effective

Benefit Payments/Benefit Recalculation Audit, Executive Limitations Audit, Investment Performance Summary Review Audit, Schedule of Investment Fees and Investment Management Fees Review, External Auditor Assistance, Professional Development, and the Audit Services Procedure Manual.

The Committee discussed the Employer Audits. To date, fifteen TFFR employer audits have been completed, including fourteen TFFR Compliance Audits and one Not in Compliance review. Audit Services anticipates completing a total of 20-25 employer audits in fiscal year 2016, which would include 19-24 TFFR Compliance Audits and one Not in Compliance review. Audit Services will fall short of the established goal by 10-15 audits. Discussion followed on the work plan vs actual activities. The Committee felt that perhaps some adjustments would need to be made in some of the activities since there have been a number of different types of audits being completed. The Committee will be addressing the 2016-17 work plan at their May 19, 2016, meeting.

The Audit Committee thanked Audit Services for all of their hard work and due diligence in overseeing the areas that are of greatest concern to the Audit Committee, the external audit partners, and RIO Management.

EXECUTIVE LIMITATIONS AUDIT:

Ms. Miller Bowley reported the Executive Limitations Audit for calendar year 2015 had been completed. Audit Services was satisfied that the Executive Director/CIO is in compliance with State Investment Board Governance Manual Executive Limitation Policies A1-A11.

Audit Services recommends that a fraud reporting policy (as requested by the Audit Committee) and a Bring Your Own Mobile Device policy be added to the RIO Administrative Manual in the upcoming fiscal year.

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. SANDAL TO ACCEPT THE EXECUTIVE LIMITATIONS AUDIT REPORT FOR CALENDAR YEAR 2015.

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

GASB 68 SCHEDULE AUDIT:

Ms. Miller Bowley updated the Audit Committee on the GASB 68 Schedules Audit. CliftonLarsonAllen (CLA) concluded their audit of the schedules and the final audit report was issued on January 7, 2016. CLA is scheduled to be at the May 19, 2016, Audit Committee meeting to present the results of the audit and also the audit scope and approach for the upcoming financial audit of RIO for fiscal year July 1, 2015 - June 30, 2016.

CHARTER:

The Audit Committee reviewed a revised draft of their Charter. The Audit Committee was satisfied with the changes that were incorporated from their November 19, 2015, meeting review and discussion and directed staff to submit the revised Charter to legal counsel for review.

IT WAS MOVED BY MS. RIEDMAN AND SECONDED BY MS. TERNES AND CARRIED BY A VOICE VOTE TO FORWARD THE CHARTER TO LEGAL COUNSEL FOR REVIEW.

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

MEETING SCHEDULE:

Ms. Miller Bowley presented a 2016-17 draft-meeting schedule for the Audit Committee's consideration.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MS. RIEDMAN TO APPROVE THE 2016-17 AUDIT COMMITTEE MEETING SCHEDULE.

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

WEBSITE TRANSPARENCY:

Ms. Miller Bowley updated the Audit Committee on RIO's efforts to enhance transparency. RIO has taken additional steps to enhance transparency on the office website specifically focusing on greater public access to SIB, Teachers' Fund for Retirement (TFFR), and Audit Committee board member information, meeting materials, meeting minutes, meeting schedules, and the SIB's Governance Manual. RIO personnel finished updating the website in December 2015 to include these items.

COMMITTEE MEETINGS WITH STAFF:

On an annual basis, the Audit Committee may elect to meet with RIO's Management and or Supervisor of Audit Services separately and out of the presence of the independent auditors to discuss/review any concerns regarding the audit program at RIO.

The Audit Committee elected to meet with Mr. Hunter and Ms. Kopp. The meeting began at 4:08 pm and concluded at 4:31 pm.

The Audit Committee elected to meet with Ms. Miller Bowley and Ms. Thorsen. The meeting began at 4:31 pm and concluded at 4:34 pm.

The Audit Committee, RIO Management, and the Audit Services division concur that things are going well. The Audit Committee commended the Audit Service's staff for all of their great work.

OTHER:

Ms. Karol Riedman, external member of the SIB Audit Committee, notified the Audit Committee that she has accepted a position with the ND University System and is willing to continue to serve on the Committee. The Audit Committee membership has a term of one year.

Ms. Laura Schratt, wife of the current ED/CIO of RIO, is also employed at the ND University System. Both Ms. Riedman and Ms. Schratt report administratively to the agency Interim Chief of Staff and organizationally to the agency Audit Committee. Legal counsel was sought to determine if there was a conflict of interest and Ms. Jan Murtha, Attorney General's Office, has advised RIO that a conflict of interest does not exist.

The next Audit Committee meeting is scheduled for May 19, 2016, at 3:00 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 4:40 p.m.

Respectfully Submitted:

Ms. Rebecca Dorwart, Chair
SIB Audit Committee

Bonnie Heit
Assistant to the Audit Committee