

AUDIT COMMITTEE MEETING

Wednesday, May 15, 2024 – 2:30 PM
Workforce Safety & Insurance Board Room
1600 E Century Ave Suite 1, Bismarck, ND 58503
[Click here to join the meeting](#)

AGENDA

- I. CALL TO ORDER AND APPROVAL OF AGENDA – *(Committee Action)*
- II. APPROVAL OF MINUTES (February 15, 2024) *(Committee Action)*
- III. JULY 1, 2023, TO JUNE 30, 2024, FISCAL YEAR FINANCIAL AUDIT SCOPE AND APPROACH UPDATE – (5 MINUTES) *(Information)* – Ms. Seiler
- IV. INTERNAL AUDIT MODERNIZATION PROJECT (30 MINUTES) *(Information)*
 - a. Weaver Update – Bruce Mills
 - b. Work Plan – Ms. Seiler
- V. INTERNAL AUDIT INTERIM WORKPLAN (10 minutes) *(Committee Action)* – Ms. Seiler
- VI. EXECUTIVE LIMITATIONS/STAFF RELATIONS (20 minutes) *(Information)* – Ms. Murtha
 - a. Strategic Plan Review
- VII. THIRD QUARTER AUDIT ACTIVITIES (20 minutes) *(Committee Action)* – Ms. Seiler
 - a. Model 2 Partial Review Report
 - b. Risk Rating Legend
- VIII. CURRENT IA ACTIVITIES UPDATE (10 minutes) *(Committee Action)* – Ms. Seiler
 - a. Audit Committee Charter
 - b. Internal Audit Charter
 - c. Internal Audit Ends
- IX. AUDIT COMMITTEE MEETING SCHEDULE – FY2024 *(Committee Action)* – Ms. Seiler
- X. 2024 – 2025 SIB AUDIT COMMITTEE MEMBERSHIP *(Information)* – Ms. Seiler
- XI. OTHER

Next SIB Audit Committee Meeting:
Workforce Safety & Insurance Board Room
1600 E Century Ave Suite 1, Bismarck, ND 58503
Wednesday, August 14, 2024 @ 2:30 PM

XII. ADJOURNMENT

Any individual requiring an auxiliary aid or service should contact the Retirement and Investment Office at (701) 328-9885 at least (3) days prior to the scheduled meeting.

**STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
FEBRUARY 15, 2024, MEETING**

MEMBERS PRESENT: Thomas Beadle, State Treasurer, Chair
Dina Cashman, External Representative
Cody Mickelson, TFFR Board
Adam Miller, PERS Board
Todd Van Orman, External Representative

STAFF PRESENT: Missy Kopp, Exec. Assistant
Jan Murtha, Exec. Director
Chad Roberts, DED/CRO
Sara Seiler, Suprv. of Internal Audit
Ryan Skor, CFO/COO
Dottie Thorsen, Internal Auditor

GUESTS : Dean DePountis, Attorney General's Office

CALL TO ORDER:

Treasurer Beadle called the State Investment Board (SIB) Audit Committee meeting to order at 2:37 p.m. on Thursday, February 15, 2024, at the WSI Board Room, 1600 E Century Ave., Bismarck, ND.

The following Audit Committee members were present representing a quorum, Treasurer Beadle, Ms. Cashman, Mr. Mickelson, Mr. Miller, and Mr. Van Orman.

AGENDA:

The agenda was considered for the February 15, 2024, meeting.

IT WAS MOVED BY MR. VAN ORMAN AND SECONDED BY MS. CASHMAN AND CARRIED BY A VOICE VOTE TO APPROVE THE AGENDA FOR THE FEBRUARY 15, 2024, MEETING AS DISTRIBUTED.

AYES: MS. CASHMAN, MR. MILLER, MR. VAN ORMAN, MR. MICKELSON, AND TREASURER BEADLE

NAYS: NONE

MOTION CARRIED

MINUTES:

IT WAS MOVED BY MR. MICKELSON AND SECONDED BY MR. MILLER AND CARRIED BY A VOICE VOTE TO ACCEPT THE MINUTES FROM THE NOVEMBER 14, 2023, AND JANUARY 18, 2024, MEETINGS.

AYES: MR. VAN ORMAN, MR. MICKELSON, MR. MILLER, MS. CASHMAN, AND TREASURER BEADLE

NAYS: NONE

MOTION CARRIED

PIONEER PROJECT UPDATE:

Mr. Roberts provided an update on the Pioneer Project. A summary was provided of tasks that have been completed, are in progress, or have not been started. User acceptance testing has started and is going well. Data migration slowed down in November and December but has resumed and is expected to finish on schedule. The project remains under budget and is expected to go live in October 2024. The vendor informed RIO that they are subject to a lawsuit in a separate division of the company. Mr. Roberts will continue to monitor this issue and discuss it with the vendor. Committee discussion followed.

EXECUTIVE LIMITATIONS/STAFF RELATIONS:

Ms. Murtha reviewed RIO's strategic planning process. The next new board member onboarding session is scheduled for March 6, 2024, and will cover the next section of the governance manual. The Temporary Administrative Assistant position has been accepted and the new staff person will start in March. Ms. Murtha reviewed current project activities and initiatives. Committee discussion followed.

AUDIT COMMITTEE CHARTER:

Ms. Sauter reviewed proposed changes to the Audit Committee Charter. The purpose and mission were changes to align with the SIB Governance Manual and Internal Audit (IA) Charter. Committee composition was updated to reflect the composition changes to the SIB, and the responsibilities were updated to reflect oversight responsibilities as outlined in the SIB Governance Manual. After the Audit Committee's approval, the charter will be reviewed by the SIB Governance and Policy Review Committee then be sent to the SIB for final approval. Committee discussion followed.

IT WAS MOVED BY MS. CASHMAN AND SECONDED BY MR. VAN ORMAN AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE PROPOSED AUDIT COMMITTEE CHARTER.

AYES: MR. MILLER, MS. CASHMAN, MR. MICKELSON, MR. VAN ORMAN, AND TREASURER BEADLE

NAYS: NONE

MOTION CARRIED

SECOND QUARTER AUDIT ACTIVITIES:

Ms. Seiler reviewed second quarter audit activities for the quarter ended December 31, 2023. IA has administered the SIB self-assessment survey, but this will transition to the Communications & Outreach Director going forward. The Executive Limitations audit was completed, and the ED was compliant with all executive limitations policies. The external auditor completed the annual financial audit and an audit of GASB 68 census data. No materials weaknesses or significant deficiencies were identified. Ms. Seiler reviewed the meetings and administrative activities that IA staff were involved in. Committee discussion followed.

IT WAS MOVED BY MR. VAN ORMAN AND SECONDED BY MR. MICKELSON AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE SECOND QUARTER IA ACTIVITIES REPORT.

AYES: MR. VAN ORMAN, MS. CASHMAN, MR. MICKELSON, MR. MILLER, AND TREASURER BEADLE

NAYS: NONE

MOTION CARRIED

IA MODERNIZATION PROJECT UPDATE:

Ms. Sauter provided an update on the IA modernization project. The Request for Proposal (RFP) process was ahead of schedule and Weaver was selected and the contract has been executed. Staff will start working with the consultant on the risk assessment and an IA manual. During this process, staff will evaluate budget needs for the next biennium. A timeline of activities was provided. Committee discussion followed.

CURRENT IA ACTIVITIES UPDATE:

Ms. Seiler provided an update on current IA activities. Audit staff have been administering surveys for the Executive Review and Compensation Committee. Other activities included strategic planning participation, board member onboarding and open records/meeting training. The external audit contract expires this year. Staff are working with the State Auditor's Office who is responsible for the procurement process to choose an external auditor. The SIB Governance and Policy Review Committee is doing a complete review of the SIB Governance Manual. One recommendation is to add Ends for the IA program. Staff requested delegation of Ends creation to the committee chair, the Supervisor of Internal Audit, and the ED. Committee discussion followed.

IT WAS MOVED BY MR. MICKELSON AND SECONDED BY MS. CASHMAN AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE CURRENT IA ACTIVITIES REPORT.

AYES: MS. CASHMAN, MR. MILLER, MR. VAN ORMAN, MR. MICKELSON, AND TREASURER BEADLE

NAYS: NONE

MOTION CARRIED

IT WAS MOVED BY MR. VAN ORMAN AND SECONDED BY MS. CASHMAN AND CARRIED BY A ROLL CALL VOTE TO DELEGATE THE AUTHORITY TO CREATE INTERNAL AUDIT ENDS FOR ADDITION TO THE SIB GOVERNANCE MANUAL TO THE COMMITTEE CHAIR AND STAFF.

AYES: MR. VAN ORMAN, MR. MICKELSON, MR. MILLER, MS. CASHMAN, AND TREASURE BEADLE

NAYS: NONE

MOTION CARRIED

With no further business to come before the Audit Committee, Treasurer Beadle adjourned the meeting at 4:07 p.m.

Prepared by: Missy Kopp, Assistant to the Board

MEMORANDUM

TO: SIB Audit Committee
FROM: Sara Seiler, Supervisor of Internal Audit
DATE: May 13, 2024
RE: External Auditor Update

The State Auditor's Office has issued an intent to award and is waiting for the contract to be executed. A formal update on the status will be given at the Audit Committee meeting.

Committee Action Requested: Information only.



**State Investment Board
North Dakota Retirement and Investment Office**

Internal Audit Maturity Development

May 15, 2024

Internal Audit Maturity Development

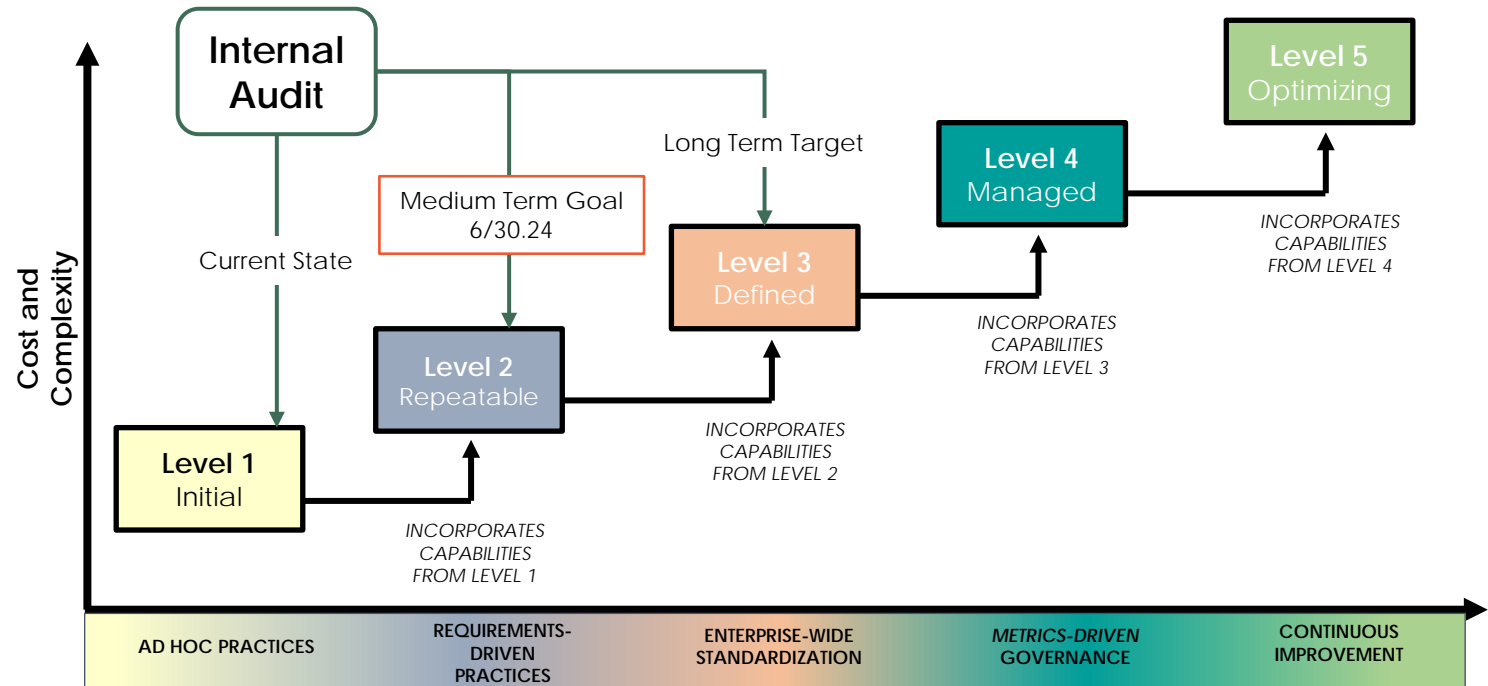
The Internal Audit Maturity Development project is designed to:

- ▶ Support the ongoing growth of ND RIO's Internal Audit function to align with the changes within the organization
- ▶ Assist Internal Audit to conform with the new **2024 International Standards for the Professional Practice of Internal Auditing** (the IIA Standards)
- ▶ This engagement builds on the 2022 Maturity Assessment project with Internal Audit to show the current state and provide a future state roadmap

Maturity Assessment - Goals

Medium Term Goal: Current Engagement

Long Term Target: 6/30/25



Organizations should expect that moving from each level of maturity includes additional components of:

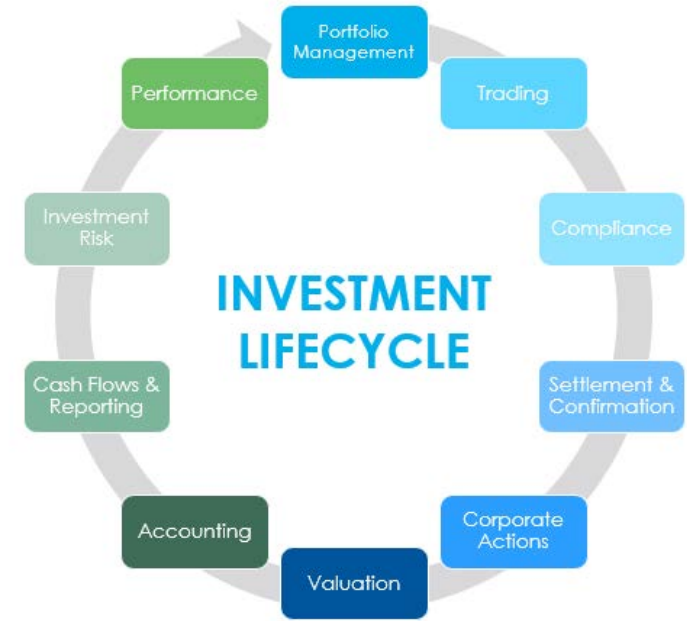
- Cost
- Complexity
- Advanced Business Practices

2024 Project Requirements

- ▶ Conduct an Internal Audit Risk Assessment over the Investment and Fiscal Divisions of ND RIO
- ▶ Develop a multi-year, risk-based Internal Audit Plan that considers the available resources, capabilities, and needs within the Internal Audit team
 - Internal Audit will require support for both the volume of work and the technical competencies required with the Investment internalization
 - This can come from internal hiring, external resourcing, or a combination of both
 - Specific training on investment fundamentals, systems, and risks should be part of the growth plan for the Internal Audit team
- ▶ Develop Internal Audit Infrastructure materials that align with the new Standards and support the ongoing development of the function

Risk Assessment and Audit Plan

- ▶ The Risk Assessment is focused on Investments and Fiscal and designed to align with the Internalization Plan
- ▶ Covers the risks across the investment lifecycle including risks of external managers and provides an Audit Plan that is:
 - Focused on the key risks of your organization
 - Inclusive of both assurance and consultative engagements, where needed
 - Aligned with industry best practices and
 - Based on the resources available to Internal Audit
- ▶ Adaptable to expand to include Retirements and evolve with the organization over time
- ▶ The assessment is used to derive a multi-year risk-based internal Audit plan



	Quantitative and Historical Information				Risk Assessment										COMMENTS		
	RA Category	RA Inherent Rating	Quantitative Factors	Historical Internal Audit Experience	Financial & Markets		Operational, Complexity and Human Capital		Information Technology		Regulatory, Compliance and Political		Reputation			Composite	
					10%	25%	30%	15%	20%	100%	100%	Total					
SIGNIFICANT ACTIVITIES					P	I	P	I	P	I	P	I	P	I	P	I	
Portfolio Management	Research & Analytics Fixed Income Inflation Sensitive Risk Mitigating Strategies Sustainable Investment & Stewardship	Mod-High High High Mod-High	Long-term treasury market experiencing significant stress due to inflation No XRI issues evident	1 moderate level findings in previous audit	3	4	5	5	5	5	3	4	3	5	4.10	4.75	4.43
Trading	Aggregation & Allocation Best Execution Commission Sharing Broker Selection Trade Capture	Mod-High High High Mod-Low Mod-Low	Significant AUM changes in FY Increase in Equity Trading Volumes	No significant findings or compliance issues	2	4	3	3	2	2	2	4	2	4	2.25	3.15	2.70

Risk Levels		
High	An overall residual risk greater than 3.75 is considered Critical Risk	
Moderate	Residual risk is between 3.00 and 3.75 is considered High Risk	
Low	Residual risk is between 2.00 and 3.00 is considered Moderate Risk	
Very Low	Residual risk is less than 2.00 is considered Low Risk	

Inherent Risk (IR)	Risk Reduction (RR)	Residual Risk (RR)
4.25	0.25	4.00
4.88	0.50	4.38
4.25	0.50	3.75
4.00	0.25	3.75
4.13	0.50	3.63
4.30	0.75	3.55
4.25	0.75	3.50
4.25	0.75	3.50
4.25	0.75	3.50
2.88	0.50	2.38
2.69	0.50	2.19
1.00	0.00	1.00

9	3	Derivative Investments (Global Equity)	Asset Mgmt. - Public
10	6	Derivative Investments (Fixed Income)	Asset Mgmt. - Public
31	22	Conflicts of Interest - Ethics	Compliance & Conflicts of Interest
32	16	Innovative Strategies	Asset Mgmt. - Specialty
33	32	Investment Data Solutions	Governance, Performance and Risk

Risk Levels				
High	An overall residual risk greater than 3.75 is considered Critical Risk			
Moderate	Residual risk is between 3.00 and 3.75 is considered High Risk			
Low	Residual risk is between 2.00 and 3.00 is considered Moderate Risk			
Very Low	Residual risk is less than 2.00 is considered Low Risk			

Category	Process	Risk Level	Level of Effort	Essential Level	Proposed Scope
Public	Fixed Income Trading (Fixed Income) Derivative Investments (Fixed Income) Public Cash Management	High	Substantial	High	Internal audit office controls associated with the investing/trading teams, including portfolio construction, rebalancing, allocation, investment restrictions, cash and liquidity management, trading effectiveness, trading and foreign exchange, special dividends, and the acquisition and management of external investment solutions. This would also include the fixed income trade desk and the data warehouse for trade aggregation and processing, in order to capture, store, process, and analyze all relevant data and ensure the integrity of the data.
	Global Equity Trading (Global Equity) Derivative Investments (Global Equity) Stewardship Discretionary Investment Management	High	Substantial	High	Internal audit office controls associated with the investing/trading teams, including portfolio construction, rebalancing, allocation, investment restrictions, cash and liquidity management, trading effectiveness, trading and foreign exchange, special dividends, and the acquisition and management of external investment solutions. This would also include the equity trade desk and the data warehouse for trade aggregation and processing, in order to capture, store, process, and analyze all relevant data and ensure the integrity of the data.
	Compliance	High	High	High	Internal audit office Compliance function and its associated controls and policies to ensure investment team follows and monitoring of the investment activity, including reporting, monitoring of conflicts of interest, compliance, ethical, breach reporting and resolution procedures. This would include the internal audit and monitoring of the investment team's compliance with the applicable regulatory requirements and the investment team's compliance with the applicable regulatory requirements and the investment team's compliance with the applicable regulatory requirements.
	Specialty	High	High	High	Internal audit office Compliance function and its associated controls and policies to ensure investment team follows and monitoring of the investment activity, including reporting, monitoring of conflicts of interest, compliance, ethical, breach reporting and resolution procedures. This would include the internal audit and monitoring of the investment team's compliance with the applicable regulatory requirements and the investment team's compliance with the applicable regulatory requirements.
Specialty	Fixed Income Trading (Fixed Income) Derivative Investments (Fixed Income) Stewardship Discretionary Investment Management	High	Substantial	High	Internal audit office controls associated with the investing/trading teams, including portfolio construction, rebalancing, allocation, investment restrictions, cash and liquidity management, trading effectiveness, trading and foreign exchange, special dividends, and the acquisition and management of external investment solutions. This would also include the fixed income trade desk and the data warehouse for trade aggregation and processing, in order to capture, store, process, and analyze all relevant data and ensure the integrity of the data.
	Global Equity Trading (Global Equity) Derivative Investments (Global Equity) Stewardship Discretionary Investment Management	High	Substantial	High	Internal audit office controls associated with the investing/trading teams, including portfolio construction, rebalancing, allocation, investment restrictions, cash and liquidity management, trading effectiveness, trading and foreign exchange, special dividends, and the acquisition and management of external investment solutions. This would also include the equity trade desk and the data warehouse for trade aggregation and processing, in order to capture, store, process, and analyze all relevant data and ensure the integrity of the data.

Risk Assessment Key Processes

Governance, Performance and Risk

- Governance
- Performance
- Investment Risk
- Human Capital

Public Investments

- Equity Investments
- Fixed Income
- Money Markets
- Derivative Investments
- Trading

Private Market Investments

- Private Equity
- Private Debt
- Real Estate
- Infrastructure

External Fund Management

- Selection and due diligence
- Fees & Expenses
- Public Markets
- Private markets

Compliance

- Investment Compliance
- Conflicts of Interest
- Trade Surveillance

Operations

- Trade Administration
- Portfolio Operations
- Fund Accounting

Fiscal

- Cash Management and Processing
- Budget and Planning
- Accounts Payable
- Cash Disbursements
- Purchasing and Procurement
- Accounts Receivable
- Financial Reporting
- Investment Accounting
- Reporting
- Records Management
- Facilities and Security

Risk-Based Internal Audit Planning

Weaver's Risk Assessment approach considers key processes across the organization and how they could be assessed by Internal Audit when conducting a review.

The use of a risk-based plan allows Internal Audit to track when investment or fiscal operations change and create a structured approach to determine the best timing for certain audits.

Use of a risk-based approach is required for Internal Audit to conform with the IIA Standards

The areas listed here are either relevant within the current organization structure or part of the investment internalization long-term planning.

Weaver leveraged our previous engagement to understand the challenges facing Internal Audit, and are using that knowledge to build the infrastructure necessary for future success

- An **Internal Audit Manual** consistent with the 2024 Institute of Internal Audit Standards. Weaver's Internal Audit practice is active within the local IIA chapters and is very familiar with the new Standards.
- **Consulting engagement procedures** for Internal Audit that provide guidance and methodology following industry best practices for determining key projects for inclusion in the Audit Plan.
- A review of both the **Audit Committee and Internal Audit Charters** for conformance with the IIA Standards.
- Weaver will also leverage the documentation and workpaper templates provided to RIO in our previous engagement to efficiently **develop audit planning and workpaper templates** necessary for performing effective internal audits.

Current Project Status



The Project is **on track** to meet our deliverable timelines. We have received support across the organization, and as of May 2 have:

- Conducted Risk assessment meetings with key members of Fiscal and Investments
- Documented risks and evolution of investment internalization and impact to Internal Audit plan
- Begun development of Audit Plan, Manual, and Materials
- Initiated review of Audit Charters

Phases	Status	March	April	May	June	July
Kickoff	✓					
Planning & Document Review	✓					
Risk Assessment and Plan Development	In Progress					
IA Manual Development	In Progress					
IA Procedures and Charters	In Progress					
Deliverable Validation						
Final Reporting and Materials						

Project Current Status



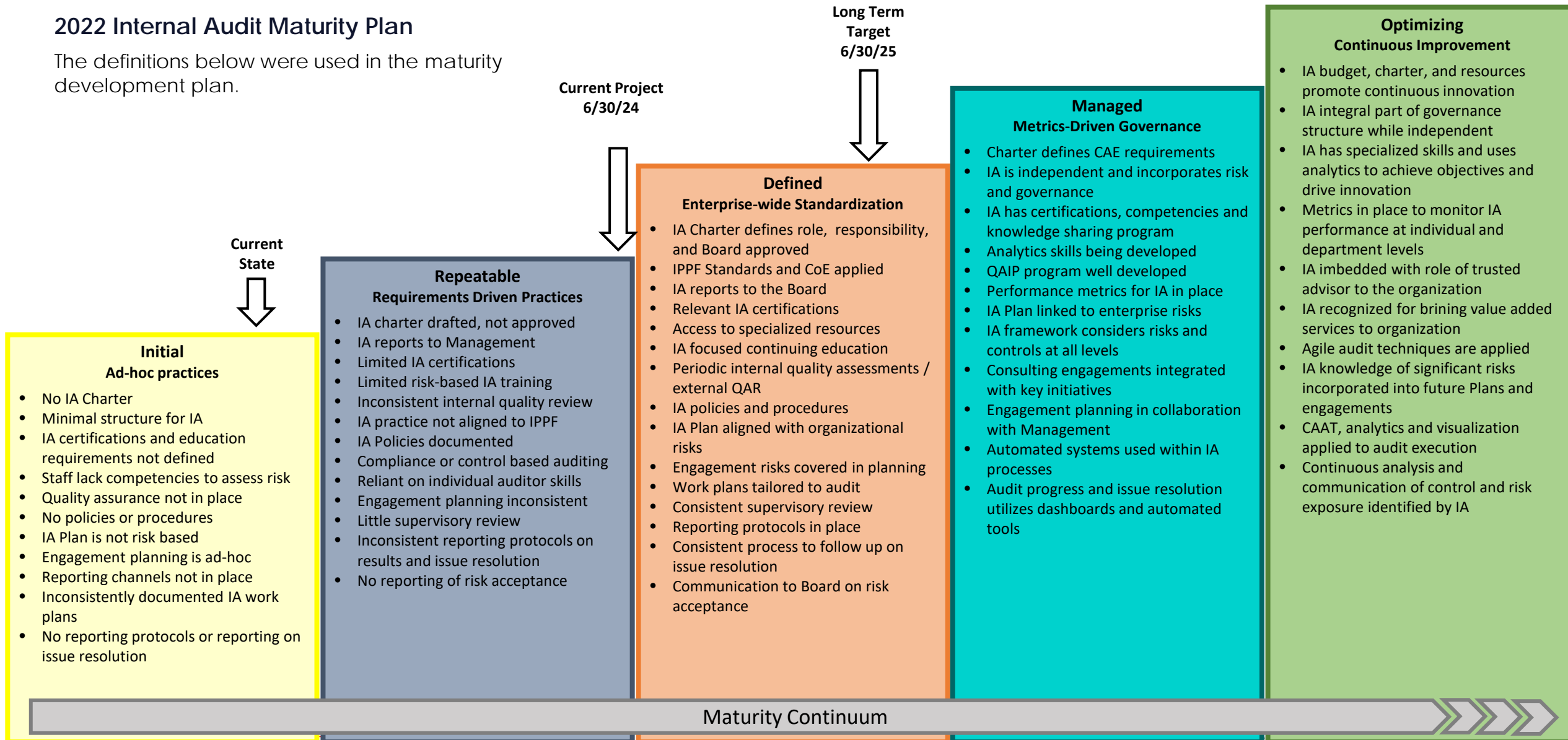
Appendix

1. 2022 Maturity Assessment Materials
2. Weaver Project Team and Practice Information

Appendix 1 Internal Audit Maturity Development

2022 Internal Audit Maturity Plan

The definitions below were used in the maturity development plan.



Appendix 1

Staffing and Resources

Weaver reviewed the staffing resources needed for Internal Audit, and the following recommendations were presented to the State Investment Board Audit Committee in February 2023.

1. Using Weaver’s standard model for co-sourcing of Internal Audit for government agencies, ND RIO showed a shortfall in anticipated audit hours. The 6,000 hour benchmark was established based on historical engagements with similar agencies and provides an organization approximately 6-8 internal audits each year.
2. The Internal Audit team as currently structured did not appear to have the capacity to meet the typical Internal Audit Plan, when accounting for the functional responsibilities of the Audit Supervisor as the Head of Audit.
3. Government agencies typically address these shortfalls through a combination of:
 - Additional Headcount
 - External Resources (Co-source, Loan Staff)

Additional Resource Considerations

- ▶ The proposed plan to internalize the investment process will add additional complexity to the Internal Audit risk assessment, audit planning, and the audits being conducted.
- ▶ Internal Audit will likely need additional resources in order to meet current audit plan requirements and be positioned to conduct future audit work, especially related to investment internalization
 - Additional training in investments products, audit procedures and required controls.
 - External assistance to provide advice and guidance as well as build and begin executing an audit plan focused on investments.
 - Additional junior level auditor(s) to conduct routine audit work that would allow the Audit Supervisor to focus on management responsibilities.
 - An external resource such as a firm with professional practices experience to assist Internal Audit in enhancing its operating practices and processes while allowing it to continue progress against the current audit plan and other responsibilities.

ND RIO Staffing Model Assessment

One Full Time Equivalent (FTE) Auditor	Hours
Total Annual Hours Available	2,080
Less Hours For:	
Vacation and Sick Leave	(160)
State Holidays (11)*	(88)
Continuing Professional Education	(40)
Administrative Duties	(192)
Total Annual Hours Per Auditor	1,600

Total Annual Hours Available by Role		
Associate	100%	1,600
Senior Auditor(a)	90%	1,440
Head of Audit(b)	50%	800
ND RIO Internal Audit Expected Hours		2,240
<small>(a) Dorothy Thorsen (b) Sara Seiler</small>		

Weaver's Co-Sourcing Resource Model	
Expected Audit Hours Annually	6,000
ND RIO Available Hours	2,240
Hours Shortfall	
3,760	
FTE Shortfall (Associate level)	
2.4	

ND RIO Annual Plan	
ND Internal Audit Plan	4,160
ND RIO Available Hours	2,240
Audit Hours Shortfall	
1,920	
FTE Shortfall (Associate level)	
1.2	

Appendix 2 Your Engagement Team

Alyssa Martin, CPA

Engagement Partner, Exec. Level POC | National Strategy Leader, Large Market and Public Entities

CLIENTS: California State Teachers' Retirement System (CalSTRS), California Public Employee's Retirement System (CalPERS), North Dakota Retirement Investment Office (ND RIO), Los Angeles County Employees Retirement Association (LACERA), Los Angeles City Employees' Retirement System (LACERS), Employees Retirement System of Texas (ERS) and the Texas Municipal Retirement System (TMRS)



Bruce Mills, CIA, CFE

Engagement Lead | Managing Director Asset Management Consulting

CLIENTS: California State Teachers' Retirement System (CalSTRS), California Public Employee's Retirement System (CalPERS), North Dakota Retirement Investment Office (ND RIO), Employees Retirement System of Texas, Los Angeles County Employees Retirement Association (LACERA), State Board of Administration of Florida, San Diego County Employees Retirement Association (SDCERA)

Holly Hart, CPA, CIA

Senior Manager | Risk Advisory Services

CLIENTS: California State Teachers' Retirement System (CalSTRS), California Public Employee's Retirement System (CalPERS), Los Angeles County Employees Retirement Association (LACERA), North Dakota Retirement Investment Office (ND RIO)



Marci Sundbeck, CIA, CISA, CCSA, CFE, CRMA

Senior Consultant | Risk Advisory Services

CLIENTS: California State Teachers' Retirement System (CalSTRS), California Public Employee's Retirement System (CalPERS) Employees Retirement System of Texas, Los Angeles County Employees Retirement System (LACERS), Los Angeles County Employees Retirement Association (LACERA)

As a firm that's good company for any company, we continue to grow and expand.



~1,200 TEAM MEMBERS



16 U.S. LOCATIONS



~\$250M IN REVENUES



GLOBAL NETWORK MEMBER FIRM



GLOBAL NETWORKS

- » TIAG — The International Accounting Group — which is an international alliance of independent accounting and law firms
- » Allinial Global, a network of 200+ firms in 88 countries



INDUSTRY PRACTICE

AREAS

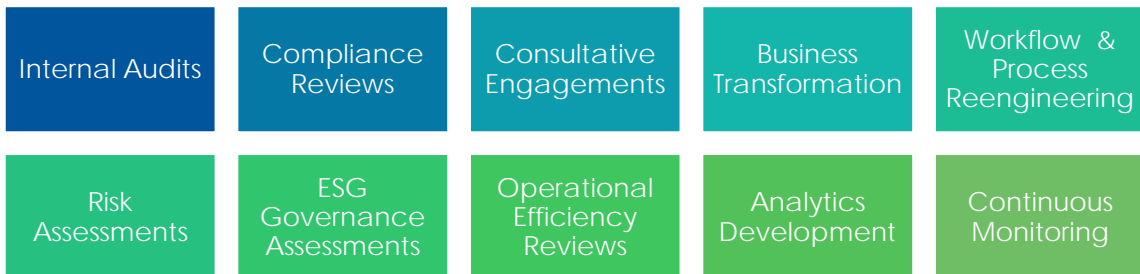
- » Government
- » Private Equity
- » Financial Services
- » Construction
- » Real Estate
- » Family Office
- » Energy
- » Technology
- » Health Care
- » Professional Services
- » Manufacturing, Distribution & Retail
- » Hospitality & Entertainment

Appendix 2

Asset Management Consulting Practice

Weaver's **Asset Management Consulting** practice can provide internal audit, regulatory compliance, risk and management consulting services for investment advisers and asset managers.

- Internal Audit capabilities across the asset management lifecycle covering public and private funds, ETFs, pensions and other investment vehicles. We have experience conducting internal audit control and advisory reviews for portfolio management, trading, operations, ESG, compliance, and distribution.
- Enterprise risk and operational management to help asset managers and investment advisers address adviser due diligence, third party risk, fraud detection and prevention, workflow and policy development, and process efficiency.



Asset Management Consulting practice offers a dedicated **Investment Adviser Compliance Service** tailored to asset managers of public and private funds and portfolios. Weaver eases the compliance burden, meeting regulatory challenges head-on and helping to ensure operations are in line with industry best practices.

Our customized compliance solutions advisers and broker dealers allowing them to meet their client and regulatory requirements and standards. These solutions include partial and fully outsourced compliance coverage that extends to every facet of your program – from reviewing and updating policies and procedures to conducting risk assessments and trainings for employees. With robust oversight and engagement, our compliance offerings aid your long-term success.





Bruce Mills

Email: Bruce.Mills@Weaver.com

Phone: 832.320.3211

MEMORANDUM

TO: SIB Audit Committee
FROM: Sara Seiler, Supervisor of Internal Audit
DATE: May 1, 2024
RE: Internal Audit Modernization Project Update

Internal Audit Modernization Workplan

Timeframe	Activity	Status
November 2023	Project Plan Presentation to A.C. Update Internal Audit Charter	Completed
December 2023	Issue RFP for: <ul style="list-style-type: none"> • Risk Assessment (Investment & Fiscal Divisions) • Audit Manual (compliance with new IIA standards) • Policies & Procedures 	RFP was issued in November 2023 and Weaver was selected in January 2024.
November 2023 – June 2024	Continue working on recommendation internally to complete short-term and mid-term goals.	With the 2024 IIA standards being issued in January 2024, IA staff is working on the recommendations while also reviewing the new Standards.
February 2024	Progress update to Audit Committee	Completed
February – August 2024	Work with selected vendor on risk assessment, audit manual & templates.	Risk assessment is near completion, audit manual and templates are in process.
March/April 2024	Evaluate budget needs for 25-27 biannual session regarding: <ul style="list-style-type: none"> • Training • Resources • Data Analytics • Quality Assurance Review 	One additional FTE for the internal audit division will be requested in the upcoming legislative session. Other resources and training will be reviewed in June 2024 with the Executive Director, CFO/COO, and Supervisor of Internal Audit after the risk assessment and preliminary audit plan is completed.
May 2024	Progress update to Audit Committee (AC).	Status update will be provided at May Audit Committee meeting.
May/June 2024	Risk Assessment Retirement Division – Internally	Risk Assessment for the Retirement Division has started.

Approx July 2024	Implement new policies & procedures for all Internal Audits	Not started.
August 2024	Bring updated Audit Plan to AC Necessary changes to Internal Audit Charter reflecting updated IIA standards. Evaluate progress of IA maturity	Not started.

COMMITTEE ACTION REQUESTED: Information only.

MEMORANDUM

TO: SIB Audit Committee
FROM: Sara Seiler, Supervisor of Internal Audit
DATE: May 10, 2024
RE: Internal Audit Interim Workplan

A risk-based audit plan cannot be developed since the risk assessment is not completed. In the upcoming months, the risk assessment will be completed, and a risk-based audit plan will be developed and presented at the next SIB Audit Committee meeting in August.

I will also be out of the office for twelve weeks starting in September or October. I will be working with the Executive Director and the Internal Auditor on a plan for coverage while I am out of the office. We will be incorporating this absence into the audit plan.

Internal audit staff will be working on the following activities in the interim along with completing the risk assessment:

- Working with Weaver on updating the charters to ensure new Institute of Internal Auditors standards are met.
- The Internal Audit manual is being developed by Weaver and staff will be reviewing.
- Assisting the external auditors with the financial statement audit and GASB 68 census data audit.
- Start the Executive Limitations Audit and do quarterly reconciliations for the audit.
- Internal Audit will continue to participate in User Acceptance Testing and meetings pertaining to design or review of modules for the Pioneer Project.
- Start the fieldwork for the TFFR File Maintenance Audit.

COMMITTEE ACTION REQUESTED: Committee Acceptance.

MEMORANDUM

TO: SIB
FROM: Jan Murtha, Executive Director
DATE: May 9, 2024
RE: Executive Limitations

A verbal update will be provided at the meeting on staff relations and strategic planning. Including updates on the following topics:

I. New Board & Committee Member Update

The final two new board member onboarding meetings have been scheduled: on June 18th, 2024 at 10amCT Deputy Executive Director-Chief Retirement Officer Chad Roberts will present an overview of the TFFR retirement program; and on July 17th, 2024 at 10amCT Supervisor of Internal Audit Sara Seiler will present an overview of the Internal Audit division and its functions.

II. Retirements/Resignations/FTE's/Temporary Assistance:

Position Title*	Status
Investment Intern	Accepted
Accounting Intern	Recruitment unsuccessful – will re-post in fall

*New FTEs related to the Internal Investment program are expected to be posted in Summer of 2024.

III. Current Project Activities/Initiatives:

- **BND Study:** RIO participated in the investment working group for the BND led study related to examining the impact of ESG related factors on state policy and industries. The working group prepared draft recommendations. The steering committee met to finalize the recommendations in May. The complete report is scheduled to be provided to the legislature this summer.
- **Cash Management Study:** RIO is participating in the OMB led cash management study. RVK has been contracted as the consultant to perform the study. RIO has participated in the kick-off and initial information gathering meetings related to the study. The study is ongoing.
- **TFFR Pioneer Project** – The TFFR Pioneer Project continues with implementation consistent with the project plan. The project is currently on time and on budget with an expected launch date by end of 2024.
- **Investment Program Software Solutions:** NDIT has determined that the investment software solution to provide the necessary infrastructure for internal investment management qualifies as a large IT project. RIO staff is still working with NDIT and State Procurement through the procurement process. The procurement process is pending.
- **Northern Trust Initiative** – In an effort to enhance the infrastructure for the investment program the Investment and Fiscal teams continue to coordinate with Northern Trust for additional functionality/capabilities. This effort should be finalized coincident with the full implementation of the new

investment program infrastructure.

- **Internal Audit Co-Sourcing:** The ED, CFO/COO, and Supervisor of Internal Audit meet with Weaver at least bi-monthly if not more frequently to coordinate consultant co-sourcing activities. Currently, Weaver is performing a risk assessment for the agency and will provide an update at the May 15, 2024 Audit Committee.
- **Other Agency Collaborations:** Members of RIO's fiscal team were invited and have participated on compensation related committees/groups for both Trust Lands and HRMS.

IV. Executive Director Activities

Subsequent to the April 26, 2024 SIB meeting and prior to the May 17, 2024 SIB meeting activities:

- Prepared materials for and/or attended the following committee meetings:
 - 5-1-24 TFFR GPR committee meeting
 - 5-2-24 Securities Litigation committee meeting
 - 5-6-24 BND Study Steering committee meeting
 - 5-7-24 Executive Review and Compensation Committee meeting
 - 5-8-24 SIB GPR committee meeting
 - 5-9-24 Budget Guidelines presentation
 - 5-10-24 & 5-14-24 Two Investment committee meetings
 - 5-13-24 JEL Leadership meeting
 - 5-15-24 Audit committee meeting
- During this time I also had several external meetings and discussions with legislators, other agency leaders and the media on program operations and state wide initiatives, as well as internal meetings with consultants, direct reports, executive team and division specific meetings, and offered in person and virtual office hours.

Subsequent to the May 17, 2024 SIB meeting and prior to the July 26, 2024 SIB meeting activities:

I'm scheduled to attend the National Council on Teacher Retirement (NCTR) Directors' meeting and the National Association of Public Pension Attorneys conferences in June. I'm currently participating on the Legislative committee of NCTR and Investment committee of NAPPA. I will also be a speaker at the NAPPA conference. I'm also scheduled to present to the Budget Section of the state legislature in June.

Board Action Requested: Board acceptance.



STRATEGY REVIEW

Retirement & Investment Office

Jan Murtha, J.D., M.P.A.P. – Executive Director
March 2024

NORTH
Dakota
Be Legendary.

The background of the slide is a composite image. The top half shows a dark night sky with the Milky Way galaxy visible as a bright, hazy band of stars. The bottom half shows a rocky, desert-like landscape at night, with warm, golden-yellow lights illuminating the rock formations and creating long shadows. A fence line is visible in the foreground of the landscape.

AGENCY VISION STATEMENT

To be recognized as a trusted and innovative provider of investment and pension services.




AGENCY PRIORITIES

Outreach – *Implementing a communication strategy with our stakeholders and the public that supports education and transparency.*

Organizational Culture – *Recognizing that talent management, a growth mindset, and a remote enabled workforce supports agency success.*

Technology - *Leveraging technology enabled processes and infrastructure to enhance organizational efficiency and support quality fiscal and risk management practices.*



BIG HAIRY AUDACIOUS GOALS (BHAG)

LOOKING AHEAD 5 TO 10 YEARS

BHAG Goals (Draft)

ND Cash Management Practices – Leveraging opportunities across agencies.

Internal Investment Initiative Expansion – Building on the business case to optimize benefits of scale.

Benefits Administration Optimization – Leveraging opportunities across agencies through unification.

Financial/Retirement Literacy Initiative – Educating for teacher retention and recruitment success.

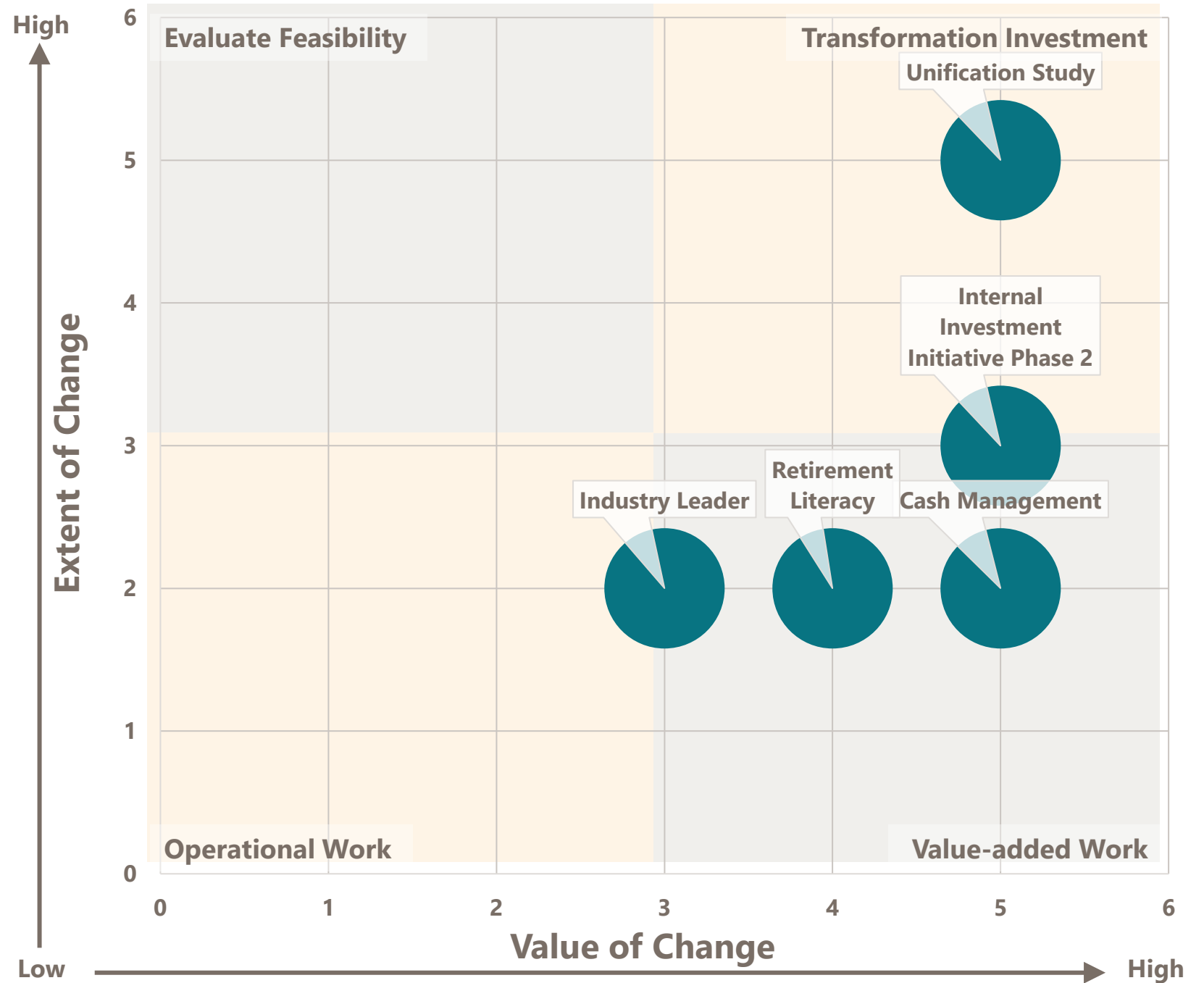
Industry Leader Initiative – Innovation in operations to excel in education, technology, and talent pool.

2025-27

STRATEGIC GOALS

Strategic Goals	Problem Being Solved
<p>ND Cash Management Practices – Implementing Cash Management Study Recommendations.</p>	<p>Unnecessary expense, failure to leverage benefits of scale, governance to support growth.</p>
<p>Internal Direct Investment Initiative 2.0 – Building on the business case to optimize benefits of scale.</p>	<p>Exposure management and active management of assets beyond simple indexing, bringing up to 30% of assets managed internally with additional savings to client funds. Expanded Compliance and Internal Audit functions. Fiscal large IT project to improve efficiency.</p>
<p>Benefits Administration Optimization – Interim Legislative Study during the 2025-2027 session.</p>	<p>RIO and PERS collaboration and possible unification to realize benefits of mission alignment, specialization, and outreach.</p>
<p>Financial/Retirement Literacy Initiative – Educating for teacher recruitment and retention success.</p>	<p>Lack of understanding of industry not just benefit. Economic health of citizens in state. Educating students interested in education and supporting retention and recruitment of new teachers.</p>
<p>Industry Leader Initiative – Innovation in operations to excel in education, technology, and talent pool.</p>	<p>Improving external communication, leveraging IT resources including AI, increase industry participation relating to public policy, promote and support growth mindset org. culture.</p>

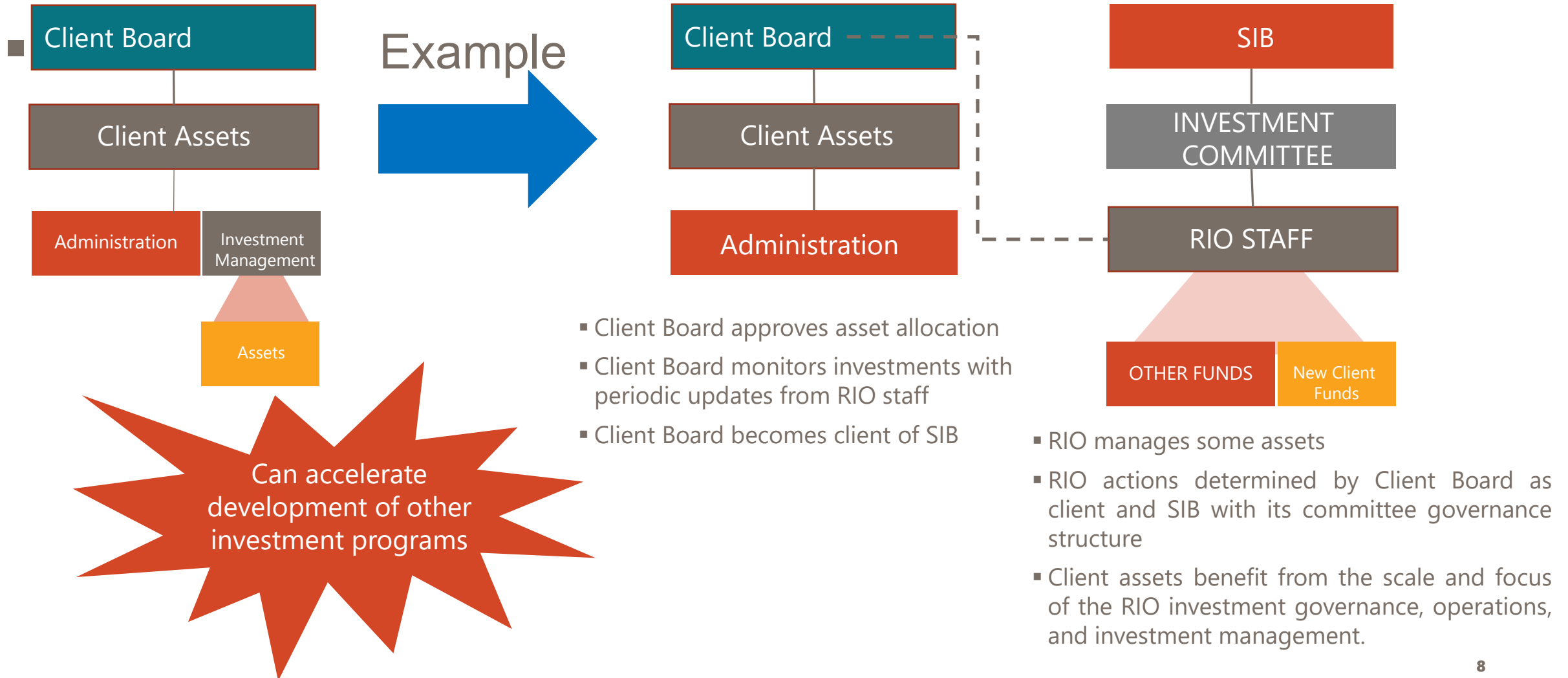
2025-2027 PRIORITIZATION MATRIX



CASH MANAGEMENT

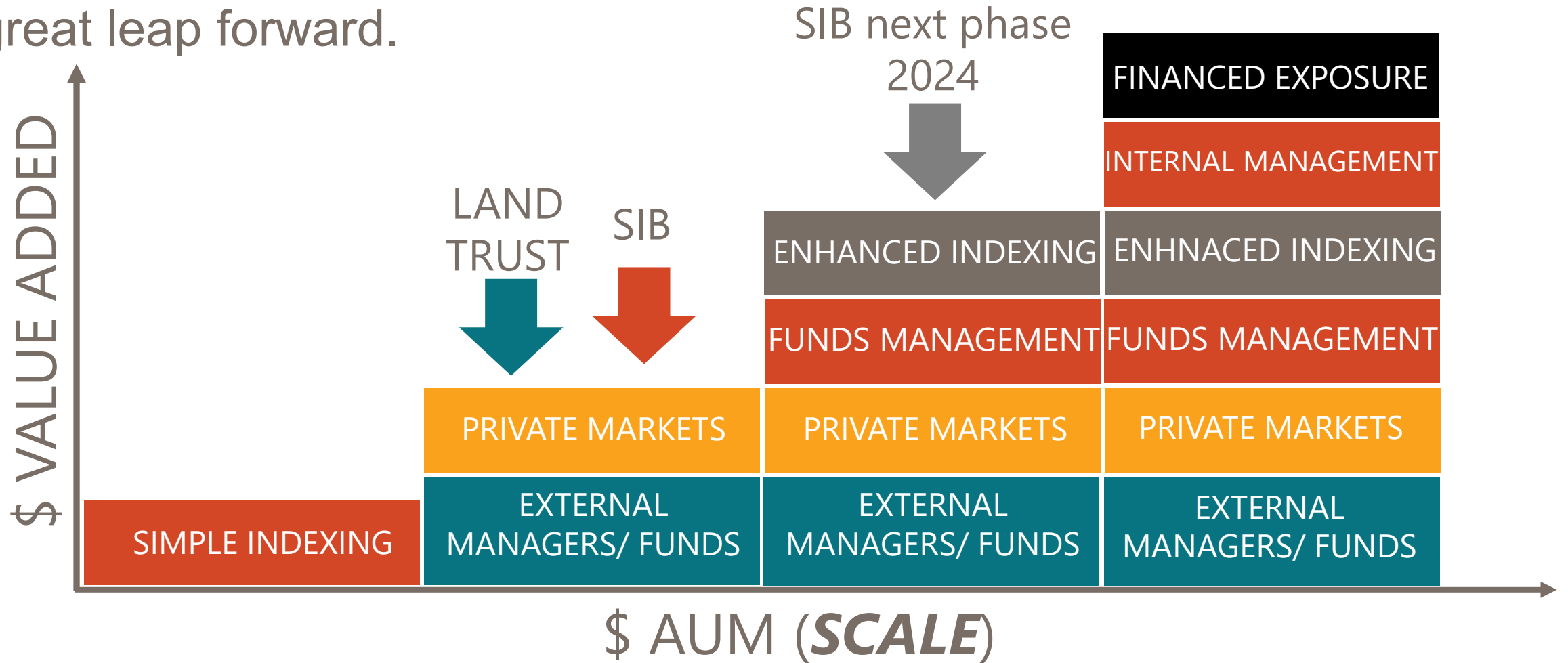
- Study may include recommendations to pool funds.

CASH MANAGEMENT STUDY MAY INCLUDE INVESTMENT RELATED RECOMMENDATIONS



COLLABORATION LEADS TO INNOVATION

A great leap forward.



EXAMPLE: MANAGEMENT OF SIIF ASSETS¹

CASH OUTFLOW TIMING BASED PORTFOLIO

25%
SHORT TERM
@3.25%²

25%
INTERMEDIATE
@5.2%²

50%
PERPETUALLY
INVESTED
@7.0%²

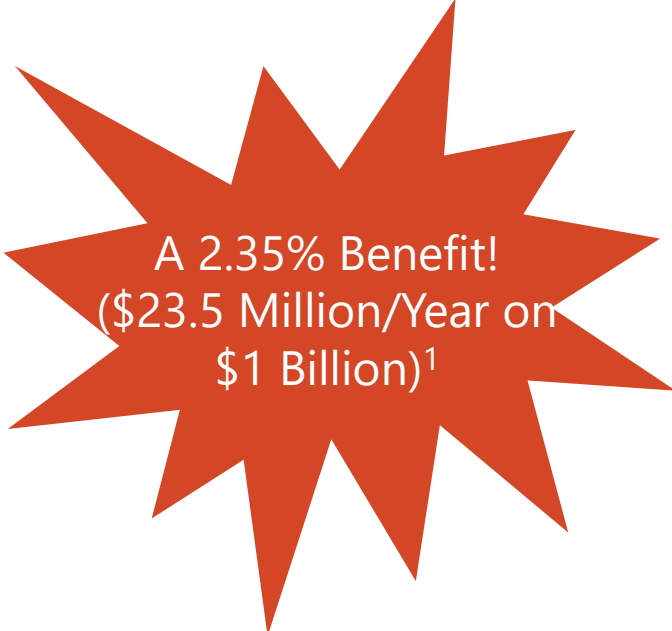
5.6%¹

Versus

SHORT DURATION PORTFOLIO

100%
SHORT TERM
@3.25%

ILLUSTRATION



- 1. Based on cash flow timing assumption illustration, actual timing yet to be determined. *Cost savings of implementation captured in combination business case*
- 2. Cash overlay, intermediate credit and cash return based on consultant assumptions



WHY UNIFY? BENEFITS OF CONSOLIDATION

- Current structure fails to leverage benefits of scale, promotes unnecessary competition for workforce, distorts stakeholder feedback, and duplicates services.
- SB2030 (1989) created RIO. The original bill proposed supporting SIB, TFFR and PERS through RIO.
- Through specialization, succession planning, and a cohesive mission strategy we can deliver better services to members, the funds, and the state.

RIO AND PERS: WHAT WE SHARE

■ **Mission**

- Agencies provide benefits administration and education to public employees.

■ **Workforce**

- Agencies compete for employees with the same skillsets to perform similar roles and send employees to the same or similar trainings.

■ **Operations**

- In addition to having a similar internal operation structure, we retain the same or similar vendor services.
- Both retain Sagitec as a software vendor, GRS for actuarial services, and the state auditor retains the same external auditor for both agencies.
- Both belong to same or similar national associations.

PLANNING FOR SUCCESS

- 2025-2027 Interim Study to examine benefits of Unification.
- If Unification recommended, recognize multi-biennium roll-out needed to manage change.



2027-29

STRATEGIC GOALS

Strategic Goals	Problem Being Solved
Internal Investment Initiative Phase 3	Potential to bring up to 50% of assets managed internally for additional cost savings to funds.
RIO- PERS Unification Phase 1	Governance, Communication and Branding addressed. Operational efficiencies identified and organization structure updated.
Retirement Education Programing – Plan Changes	Focus groups and surveys conducted to determine impact of retirement literacy campaign and elicit stakeholder input regarding preferred plan changes.
Industry Leader Initiative	Consistent publications and seminar host, expanded internship program to promote agency recruitment.

2029-31

STRATEGIC GOALS

Strategic Goals	Problem Being Solved
Expanded Investment Program Strategy	Increasing portfolio management capabilities for the benefit of client funds and expanding client fund services.
RIO – PERS Unification Phase 2	Implementation of shared mission strategy and metrics for Return on Investment.
Industry Leader Initiative	Expanded ND participation in national public policy trends; cultivate institutional investment industry in state.

2025-27

ACTION PLAN

Strategic Goal: ND Cash Management Practices

Action Items:

1. Participate in Cash Management study led by OMB and RVK.
2. Based on results of study, merge SIIF and Budget Stabilization Funds and other as required. Enable a unitization of the funds.
3. Transition the funds to be managed with new internal direct investment capability.
4. Enable overlays of the new cash as required and as beneficial.
5. Overlay working cash in all investment portfolios.

Resources Needed:

1. **EXISTING** in '24 + **NEW**: Two new investment positions to support treasury management function.
2. **EXISTING**: Completion of the order management/portfolio management system with treasury function enabled.
3. **NEW**: Additional data sets used for financed exposures and new internal direct investment strategies.

Challenges:

1. Hiring the talent to manage the advanced overlays and internal direct strategies – requires a total rewards package including incentive compensation.
2. Gaining the resources and budget in the 2025 legislative session.
3. Developing the capabilities of a remote and hybrid investment organization (most large investment organizations have this capability)
4. Opportunity to merge all of RIO and Land assets to streamline operations, reduce cost and gain scale.

Success Measures:

1. Merging and unitization of cash funds.
2. Successful internal direct management cash funds with demonstrated returns and returns per risk after cost.
3. Successful overlay of all operating cash across all investment portfolios including Land.

2025-27

ACTION PLAN

Strategic Goal: Internal Direct Investment Initiative 2.0

Action Items:

1. Develop framework for financed exposures to enable porting of active portfolios, overloading of active sub-asset classes, and managing systematic risks.
2. Develop a liquidity management framework to enable the cost management of financed exposures and risk management.
3. Develop risk and performance tools, staff and trading capabilities for financed exposures.
4. Develop risk and performance tools, staff and capability for first internal direct management strategies.

Resources Needed:

1. EXISTING in 24-25: Advanced data warehouse and exchange for analysis of exposure cost, risk management and for security level data used for internal direct management strategies.
2. NEW: Five additional analysts – two fixed income, two equity and one liquidity management analyst in addition to existing five analysts hired in 2024. Additional fiscal, compliance and internal audit positions. Fiscal large IT project to increase functionality.
3. EXISTING+NEW: Additional data sets used for financed exposures and new internal direct investment strategies.

Challenges:

1. Hiring the talent to manage the advanced overlays and internal direct strategies – requires a total rewards package including incentive compensation.
2. Gaining the resources and budget in the 2025 legislative session.
3. Developing the capabilities of a remote and hybrid investment organization (most large investment organizations have this capability)

Success Measures:

1. Completion of data warehouse, data content management and ongoing quantitative development framework centered on new data and IT related tools.
2. Successful implementation of an advanced portfolio rebalancing framework that incorporates exposure management with overlays as demonstrated by better returns and return per risk measurements.
3. Successful overloading of best active investment managers by off-setting systematic exposures demonstrated by better returns and return per risk measurements.
4. **Additional 15% of investments managed internally (for a total of 30%) and reduction of additional \$16 million in fees/year for a total of \$32 million in savings per year with internal direct initiative.**

2027-29 FIRST BIENNIUM ACTION PLAN

IF RECOMMENDED BY STUDY - ACTION PLAN FOR RIO/PERS UNIFICATION OR COLLABORATION

Strategic Goal: RIO to support 3 Boards – SIB as governing board with PERS and TFFR as policy boards.

Action Items:

1. Legislation Change to allow Unification.
2. Board Governance Change to allow Unification.
3. Development and amendment to governance documents.
4. Development and implementation of a Change Management plan.
5. Communication of Change to internal and external parties.

Resources Needed:

1. NEW: Budgeting for change management.
2. EXISTING: Enhanced support for fiscal operations to coordinate reporting.
3. NEW: Additional support for branding/communication.
4. EXISTING: Interim contingency funds.

Challenges:

1. Internal Change Management – Communicating the benefits of change
2. Communicating changes to stakeholders.
3. Governance alignment with Boards.
4. Branding.
5. Additional mandated program changes during period of unification.

Success Measures:

1. Completion of necessary updates to governance structure by 2026.
2. Identifying opportunities to specialize positions.
3. Identifying opportunities to provide back-up.
4. Identifying operational efficiencies and support succession planning.
5. Prepared to propose operational changes for 2027-2029 biennium.

2025-27

ACTION PLAN FOR FINANCIAL/RETIREMENT LITERACY INITIATIVE

Strategic Goal: Increasing education to plan for program enhancements.

Action Items:

1. Collaborate with Governor's Financial Literacy Initiative Group on audience, strategy, and content.
2. Collaborate with NDPERS on audience, strategy, and content.
3. Collaborate with Teacher's Recruitment and Retention Task force on audience, strategy, and content.
4. Develop content and implement education campaign.
5. Develop success metrics and survey content.

Resources Needed:

1. NEW: Additional operation budget for materials and consultant for survey administration.
2. NEW: Additional appropriated dollars for education programing/presentations.

Challenges:

1. Coordinating and developing a cohesive campaign across multiple groups.
2. Communicating complex content to different audiences.
3. Additional mandated program changes during period of education campaign.

Success Measures:

1. Participation rate in excess of 10% of population in survey.
2. Participant understanding of successful retirement factors. (Need to establish a base line.)

2025-27

ACTION PLAN

Strategic Goal: Industry Leader Initiative

Action Items:

1. In addition to existing intern program - develop an ad hoc intern program for investments including budget for intern hire and for subsequent full-time hire. Ex: South Dakota
2. Program to include 2-3 summer graduate interns; 1-2 of whom will transition to year-round part-time internship with RIO Investment team for potential employment at RIO at end of internship.
3. Setup a "Student Investment Fund" for training on investments in the first year of graduate program at one or more university in North Dakota in conjunction with RIO Investment team. Or collaborate with existing funds ex: NDSU "Bison Fund".
4. Leverage AI use across programs. See Strategy Question #6.
5. Program outreach to include regular publications and seminar host.
6. Leverage wellness training to support engagement.

Resources Needed:

1. NEW: Budget for "Student Investment Fund" at ND universities
2. NEW: Budget for 2-3 interns per year and budget to hire one intern as a full-time role with the investment team.

Challenges:

1. Setting up "Student Investment Fund" at one or more North Dakota universities in conjunction with RIO Investment Team
2. Hiring the talent from local universities that will have the capability to be a full-time investment analyst in the program.
3. Gaining the resources and budget in the 2025 legislative session.
4. Address concerns of employee "burn-out" with wellness training.

Success Measures:

1. Implement AI use to different degrees in both programs.
2. Setup of "Student Investment Fund"
3. Completion of intern training content and plan.
4. Host annual seminar and create and publish investment program education content annually.

STRATEGY DISCUSSION QUESTIONS 2025-27

How will your agency's strategic goals support Governor Burgum's Five Strategic Initiatives?

All five of RIO's proposed strategic initiatives illustrate what can be accomplished through reinventing government by leveraging the benefits of technology, unification services, and communication to reduce costs and provide better services to the state and the members and clients we serve.

How would your strategy change with unlimited resources?

All of RIO's proposed strategic initiatives are business case driven with an expectation of realizing a return on investment within the next five to ten years. Unlimited resources would allow for enhancements beyond those that can be identified through a strictly business case analysis to support stakeholder education of program operations, public relations and development of agency organizational culture.

STRATEGY DISCUSSION QUESTIONS 2025-27

What should your agency stop doing? (Red Tape Reduction Ideas)

The agency has declined to leverage a procurement exception for certain investment related services due to stakeholder feedback regarding transparency of process. While providing increased transparency this has slowed the pace of some program initiatives. Reconsideration of some procurement processes is needed.

What other agencies will your agency collaborate with to achieve your strategic goals?

Other agencies that RIO has and will continue to collaborate with are: AGO, BND, DFI, NDIT, OMB (fiscal, HRMS, and training), PERS (if unified), Securities, State Treasurer, and WSI (landlord).

STRATEGY DISCUSSION QUESTIONS 2025-27

What processes in your agency could be automated?

During the 2022 strategic plan development process RIO identified leveraging technology enabled processes as an agency priority and as such all processes are continually reviewed for technology enabled enhancements. Through two large IT projects for the retirement and investment programs respectively, RIO will realize the automation and transformation of both programs in 2024. RIO will seek an additional large IT project for fiscal and audit services in the 2025-2027 biennium. In addition, RIO routinely works with NDIT and OMB to adopt and implement the latest modules available for agency use.

How can artificial intelligence (AI) be utilized by your agency?

AI will be leveraged for investment data quality management including investment risk analysis. AI options will be explored for retirement program concierge services. RIO will seek the assistance of NDIT to explore AI options for information summaries, open records responses, and development of education materials.

2025 LEGISLATIVE INITIATIVES

- Procurement – Clarification of procurement exemption for internal investment program infrastructure needs.
- Unification Study – An interim legislative study to evaluate the feasibility and benefits of RIO and PERS unification.
- TFFR must submit a bill to obtain RMD change approved by Employee Benefits Programs committee. Due 4-1-24.



CONCLUSION

*“If you want to succeed you should strike out on new paths, rather than travel the worn paths of accepted success.” - John D. Rockefeller**

*Courtesy of www.brainyquote.com

2025-2027 RETIREMENT AND INVESTMENT WORKFORCE PLAN

Retirement and Investment Mission: Provide the Best Possible Customer Service to our Clients and Members

Internal and External Trends Impacting our Workforce Needs:

- Citizen perspectives due to lack of consensus with Legacy Fund utilization
- Interest of qualified applicants for evolving investment program needs.
- Teacher Retention & Recruitment.

Prioritized Workforce Competencies:

- Communicate Effectively and Build Collaborative Relationships
- Cultivate Innovation and Strategic Mindset
- Action-Oriented, Resourceful, Flexible and Adaptable

Top Workforce Initiatives		Timeline
Talent	Successfully and expeditiously recruit new talent for investment, retirement, and internal divisions	2024-2025
	Stand-up agency LinkedIn page to highlight the work of the agency and contributions and impact of team members	2025
	Build on Crucial Conversations learning to enhance interactions with internal/external stakeholders	Implemented
Leadership	Manager participation in targeted Boss to Coach sessions and utilization of 5 coaching conversations in team member interactions/engagement in alignment with agency mission and strategy	Implemented
Organizational	Technology enhancements to allow seamless transactions with enhanced efficiencies	In-progress
	Reorganization of divisions to optimize existing staff and business processes and build a better structure for future growth	Implemented

Success Measures	Current State 2024	End State 2024
Successful acquisition of new talent	In-progress	7 positions filled
Sustain team member engagement	4.55 mean	Exceeded prior goal of 4.25 - maintain
Increase customer service/success scores	3.33 out of 4.00	3.50 out of 4.00
Implementation of technology enhancements and systems	In-progress	In-progress
Investment performance	TBD by Board	TBD by Board

*Proposed FTE count excludes seasonal intern positions.

Authorized FTE	Full-Time	Temporary	Contractor
2023-2025 Biennium	34	2	0
2025-2027 Biennium (Proposed)	37	0	0
<i>2025-2027 Initiative Contingent</i>	45	0	0

Talent Acquisition Priorities/Key Positions To Fill	Approx Timing to Fill
New Investment Position – Budget Authority 7/1/24	Summer 2024
New Investment Position – Budget Authority 7/1/24	Summer 2024
New Investment Position – Budget Authority 7/1/24	Summer 2024
New Investment Position – Budget Authority 7/1/24	Summer 2024
New Investment Position – Budget Authority 7/1/24	Summer 2024
New Investment Position – Budget Authority 7/1/24	Summer 2024
New Fiscal Position – Budget Authority 7/1/24	Summer 2024
New Fiscal Position – Budget Authority 7/1/24	Summer 2024

RETIREMENT AND INVESTMENT OFFICE
Internal Audit
2023-2024 3rd Quarter Audit Activities Report
January 1, 2024 – March 31, 2024

The audit objective of Internal Audit (IA) is twofold: first, to provide comprehensive, practical audit coverage of the Retirement and Investment Office (RIO) programs; second, to assist RIO management and the State Investment Board (SIB) by conducting special reviews or audits.

Audit coverage is based on the July 1, 2023 through June 30, 2024 work plan approved by the SIB Audit Committee. The audit activities undertaken are consistent with the Internal Audit charter and goals, and the goals of RIO. To the extent possible, our audits are being carried out in accordance with the International Standards for the Professional Practice of Internal Auditing. Audit effort is being directed to the needs of RIO and the concerns of management and the SIB Audit Committee.

Investment and Agency Audit Activities

• **Executive Limitation Audit**

On an annual basis, IA reviews the Executive Director's level of compliance with the SIB Governance Manual Executive Limitation Policies A-1 through A-11. The Executive Limitations Audit was started in November 2023. The audit reviewed the calendar year of 2023.

The audit was completed and reported to the SIB Audit Committee at the February 15, 2024 meeting.

• **Governance and Review Committee**

The Supervisor of Internal Audit attended committee meetings. The Governance and Review Committee are currently reviewing and updating the SIB governance manual.

• **Executive Review and Compensation Committee**

Each year the Executive Review and Compensation Committee (ERCC) administers a formal self-assessment to the SIB. A review of the SIB self-assessment was done by the Executive Director, the Communications and Outreach Director, and the Supervisor of Internal Audit to recommend any changes ahead of the January ERCC meeting. The SIB self-assessment was administered on behalf of the ERCC by the Supervisor of Internal Audit and results were reported to the SIB at the February 23, 2024 meeting.

On an annual basis as outlined in the ERCC charter, performance surveys of the Chief Investment Officer and Deputy Executive Director/Chief Retirement Officer are administered. The ERCC also administers board and staff surveys over the Executive Director as part of the formal evaluation of that position. All surveys that were reviewed and updated. The Supervisor of Internal Audit administered the surveys and compiled the results on behalf of the ERCC.

• **Internal Audit Business Process Review**

IA presented the Internal Audit Maturity Work Plan at the November 2023 SIB Audit Committee meeting. A proposal for an RFP for the scope and timeline for additional assistance in the IA maturity development was presented. The RFP was issued in November 2023 and responses were received back in December 2023. At a special Audit Committee meeting on January 18, 2024, the Audit Committee selected the vendor, Weaver, to assist with the IA maturity development. The project with

Weaver officially kicked off in March 2024.

Staff has been working with Weaver on the investment and fiscal risk assessment that is scheduled to be completed in May 2024. Meetings were scheduled with the executive staff, investment staff, and fiscal staff as part of the risk assessment. Staff internally started working on the retirement risk assessment. Weaver also has been mapping out the new Institute of Internal Auditors (IIA) standards to the current IIA standards so appropriate changes can be made to ensure future compliance with standards.

IA presented revisions and updates for the annual review of the SIB Audit Committee Charter and approved recommended changes. The recommended changes to the Audit Committee Charter and Internal Audit Charter will be reviewed by the SIB Governance and Review Policy Committee at their April 2024 meeting and then for final approval to the State Investment Board.

Retirement Program Audit Activities

- **Model 2 Partial Salary Review**

This salary review focused on Model 2 Partial Employers. For fiscal year 2020/21, IA selected one participant from forty-one employers to ensure model compliance. The review also determined if the retirement salaries and contributions reported to TFFR by the participating employers were complying with the definition of salary as it appears in the North Dakota Century Code (N.D.C.C. § 15-39.1-04 (10)). Reported service hours and member eligibility was also verified.

The review has been completed and the final report was issued on April 22, 2024. This report is included with the Audit Committee packet.

- **TFFR Pioneer Project**

User acceptance testing (UAT) for the first segment began in the month of January 2024 and ended in March of 2024. Operational staff members tested the business processes in the training environment to ensure that the system was functioning appropriately.

During the quarter, multiple discussions were held and standard paycodes were developed for eligible earnings. Meetings were held with the two major software vendors and other business partners with their own software in their development of the upload programs for the conversion to the new pension administration system. Retirement Services held multiple seminars during the quarter to start the process of preparing the business partners for the conversion. IA attended the sessions.

Data migration moved forward, and the FileNet document migration is complete.

Administrative Activities

The IA staff attended the monthly RIO staff meetings, monthly RIO manager's meetings, divisional meetings, monthly Fiscal/Organization meetings, monthly Retirement Services' meetings, one Audit Committee meeting, one special Audit Committee meeting, three SIB meetings, two TFFR meetings, a Governance and Policy Review Committee meeting, and three Executive Review and Compensation Committee meetings. The Supervisor of Internal Audit also attended the Legislative Audit and Fiscal Review Committee where the external auditor presented the June 30, 2023 financial statement audit.

Professional Development/CE/General Education

Audit staff completed the following training: NDIT Cyber awareness training on QR Codes: Safe Scanning. The Supervisor of Internal Audit attended a webinar by the IIA on Get to Know the New Global Internal Audit Standards.

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
INTERNAL AUDIT DIVISION
FISCAL YEAR 2023 -2024**

FY 2023 1st QTR	FY 2023 2nd QTR	FY 2024 3rd QTR	FY 2024 4th QTR	FY 2024 TOTAL
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Internal Audit Activities

Investment Program Activities/Audits:

Executive Limitations Audit	8	34	149		191
Executive Review and Compensation Committee		4	52.00		56
Internal Investing RFP	3	3	3		3
Securities Litigation RFP	3	38			41

Retirement Program Activities/Audits:

TFFR Pension Data System - Pioneer Project	170	80	67		316
TFFR Model 2 Partial Review	174	118	213		505
TFFR File Maintenance Audit	0	0			0
TFFR Misc.	31	52	30.50		114

Agency Activities/Audits

Administrative Policy Reviews	53	6	7.00		66
Conflict of Interest		7			7
Audit History	13	10			13
Internal Audit Business Process Review	125	99	75.50		300
Records Management	12	46			58
RIO External Auditor Assistance	5	10	1.00		16
Onboarding & Offboarding Review	22	0			22
Employee Exits	10	0			10
Professional Development/CE/General Education	1	27	4.50		32

Administrative Activities

Administrative - Staff Mtgs, Time Reports, Email, General Reporting, Performance	150	152	135.50		437
Audit Committee Attendance and Preparation	63	87	81.50		232
SIB/TFFR Attendance and Preparation	55	48	57.25		160
Annual Leave, Sick Leave, and Holidays	144	230	169.00		542
Quarterly Total:	1040	1048	1045	0	3118

Total Hours for 2023-2024 4,160

D. Thorsen Total Hours 2023-2024 2,080

S. Seiler Total Hours 2023-2024 2,080

Internal Audit
North Dakota Retirement and Investment Office
2020/21 Salary Verification/Participant Data – Model 2 Partial Review
Final Report
April 22, 2024

Background

The accurate reporting of retirement salaries along with member contributions, employer contributions, service hours, and model compliance is vital to the administration of retirement benefits. It is the responsibility of the Teachers' Fund for Retirement (TFFR) to ensure that retirement salaries reported by participating employers on behalf of members are in compliance with the definition of salary as it appears in the North Dakota Century Code (NDCC) 15-39.1-04(10).

The employers submit an Employer Payment Plan form on an annual basis informing TFFR what reporting model they will be using to report salary and contributions. IA wanted to verify that employers were correctly reporting to TFFR per the Employer Payment Plan form provided for fiscal year 2020/21. For Model 2 Partial, the employer picks-up a portion of the member contribution of 11.75%. The percentage of the member contributions designated as paid by the member should show as a deduction from salary paid on the payroll records. TFFR's current pension accounting system does not validate the pick-up percentage and the member percentage (only validates 11.75%). The two percentage amounts should equal the 11.75 % member contribution. Instructions for reporting Model 2 Partial can be found on page 9 of the TFFR Employer Guide found on the Retirement and Investment Office (RIO) website under TFFR Employers.

Scope

Internal Audit (IA) randomly selected one member from each of the forty-one Model 2 Partial employers and requested additional information from participating employers for the purpose of verifying reported retirement salaries, member/employer contributions, service hours, and model compliance. This review was for the fiscal year 2020/21.

The accuracy of retirement salaries, member/employer contributions, and model compliance reported to TFFR for the 2020/21 fiscal year were verified. Service hours reported were reviewed for reasonableness and eligibility was confirmed via an Education Standards and Practices Board search. To verify model compliance, IA requested payroll records, an employer salary reconciliation, contracts, and employer verification of the model used in reporting. IA also reviewed the negotiated agreements when necessary.

Observations, Conclusions and Recommendations

IA provided the following information to Retirement Services (RS's) at the close of the review: a report, one electronic workbook that contains the salary reconciliations for the 41 sample members, the IA worksheets, and the Primary Test for all member accounts reviewed. IA will also provide supporting documentation for the salary reconciliations where discrepancies were noted. The documentation that supports the forty-one salary reconciliations will be scanned to the member accounts in FileNet.

The retirement salaries reported to TFFR in 2020/21 for the forty-one member accounts were reviewed. IA has three recommendations.

(1) IA found issues with six of the forty-one sample member's payroll records which appeared to be not in compliance with the reporting under this model. The following issues were noted in the payroll records.

- Calculation of retirement salary, pick-up amount or member deductions was not the percentage listed on the Employer Payment Plan form for fiscal year 2020/21.
- The Employer Payment Plan form was not the same as the negotiated agreement for the same timeframe.

IA recommends that Retirement Services (RS's) investigate the discrepancies and contact the employers to ensure that the errors found are not systemic affecting other members.

This error is an **elevated risk**.

(2) There are six member accounts recommended for salary corrections due to the material dollar amount of the discrepancy.

- Two member accounts had ineligible salary reported to TFFR.
- Three member accounts had salary reported in the wrong fiscal year.
- One ineligible member without a license issued by the Education Standards and Practices Board was reported to TFFR.

IA recommends that Retirement Services (RS's) investigate the discrepancies and contact the employers to ensure that the errors found are not systemic affecting other members.

This error is a **moderate risk**.

(3) IA also recommends for the 2024/25 fiscal year that Retirement Services (RS's) request the Employment Payment form and a copy of the current negotiated agreement from the 204 employers in order to confirm the reporting model. This would ensure that the correct model information would be transferred to the new pension administration system in 2024.

This recommendation is a **process improvement**.

The following issues were found within the individual employers that were reviewed.

Apple Creek

The following issues were noted: First, the employer submitted payroll records that did not meet Model 2 Partial reporting compliance. The amount of the TFFR contribution deducted from the member's salary did not meet the percentage specified by the Employer Payment Plan form submitted to TFFR. Second, the 2020/21 Negotiated Agreement does not list the same model as the Employer Payment Plan form provided to TFFR by the employer. IA recommends that RS's should investigate the Model being reported.

Edmore

The payroll record for 2020/21 had reporting errors due to an overpayment of salary where model compliance could not be determined. IA requested the 2019/20 payroll records and determined that model compliance was met. IA recommends that RS's review another account from fiscal year 2020/21 for model compliance. Also, IA recommends that the material payroll issues with the salary be investigated.

Fort Yates

The employer submitted payroll records that met model compliance requirements per the Employer Payment Plan form provided to TFFR. However, payroll records indicated that salary may have been reported in the wrong fiscal year. IA recommends that RS's investigate the salary issue and verify that the error is not a systemic error.

Hillsboro

The payroll records provided did not meet model compliance per the Employer Payment Plan form on file for 2020/21. The payroll records did comply with the model listed in the 2020/21 negotiated agreement. IA recommends that RS's investigate the issue with the Employer Payment Plan form.

McClusky

The payroll records provided met model compliance per the Employer Payment Plan form on file for 2020/21. However, it appears that salary was reported in the wrong fiscal year. IA recommends that RS's investigate the salary issue and verify that the error is not a systemic issue.

Midkota

The payroll records provided met model compliance per the Employer Payment Plan form for 2020/21. The model noted in the negotiated agreement was different from the model noted in 2020/21 form. IA recommends that RS's investigate the difference of the model in the Employer Payment Plan form and the negotiated agreement.

Nelson County

The sample member did not have a license issued from the Education Standards and Practices Board; therefore, the salary was ineligible to be reported to TFFR. RS's has started to investigate the issue.

North Valley Area Career and Technology

The payroll records provided met model compliance per the Employer Payment Plan form on file for 2020/21. Salary paid in 2020/21 was earned in another fiscal year. IA recommends that RS's make a salary correction to the appropriate fiscal year.

Powers Lake

The payroll records provided met model compliance per the Employer Payment Plan form on file for 2020/21. Additional summer salary was reported in the wrong fiscal year. IA recommends that RS's make a salary correction to the appropriate fiscal year and verify that the error is not a systemic issue.

Roosevelt

The payroll records provided met model compliance per the Employer Payment Plan form on file for 2020/21. Ineligible salary was reported. IA recommends that RS's make a salary correction and verify that the error is not a systemic issue.

Sawyer

The payroll records provided met model compliance per the Employer Payment Plan form on file for 2020/21. The employer also sent payroll records for fiscal year 2021/22. IA found that the retirement salary calculation on the payroll records for 2021/22 did not meet the model calculation. IA recommends that RS's verify that the error is not a systemic issue.

Warwick

The payroll records provided met model compliance per the Employer Payment form on file for 2020/21. Additional salary was reported in the wrong fiscal year. IA recommends that RS's make a salary correction to the appropriate fiscal year and verify that the error is not a systemic issue.

Within thirty days of the issue of this report the Deputy Executive Director/Chief Retirement Officer needs to provide IA with written corrective action on the reported issues and recommendations. The Deputy Executive Director/Chief Retirement Officer and the Retirement Program Manager are also responsible for providing a written report of action planned or completed to be sent to the Executive Director.

MEMORANDUM

TO: SIB Audit Committee
FROM: Sara Seiler, Supervisor of Internal Audit
DATE: May 10, 2024
RE: Risk Rating Legend

The following table is the risk rating legend for recommendations or findings that was developed in 2019. The Model 2 Partial Review utilized this risk rating legend to rate the findings.

Risk Rating Legend	
1	High Risk -Fraud, repeat findings that are high risk and/or have stiff penalties, intentional policy infractions. Will be reported to the Audit Committee.
2	Elevated Risk - State law findings, Board policy findings, repeat findings of low or moderate risk, reoccurring themes.
3	Moderate Risk - Internal policy finding that represent higher risk to the agency.
4	Low Risk - Internal policy initial findings, no internal procedures documented, appear to be oversight/not on purpose, identification of missing documents.
5	Process Improvement - A recommendation to consider improving the current process/update the procedure/policy.

Internal Audit will be changing the color scheme of the risk rating legend to reflect the color scheme of the risk assessment. Internal Audit will also be reviewing the risk rating legend and recommending any changes if needed at future audit committee meeting.

Risk Rating Legend	
1	High Risk -Fraud, repeat findings that are high risk and/or have stiff penalties, intentional policy infractions. Will be reported to the Audit Committee.
2	Elevated Risk - State law findings, Board policy findings, repeat findings of low or elevated risk, reoccurring themes.
3	Moderate Risk - Internal policy finding that represent higher risk to the agency.
4	Low Risk - Internal policy initial findings, no internal procedures documented, appear to be oversight/not on purpose, identification of missing documents.
5	Process Improvement - A recommendation to consider improving the current process/update the procedure/policy.

COMMITTEE ACTION REQUESTED: Information Only.

MEMORANDUM

TO: SIB Audit Committee
FROM: Sara Seiler, Supervisor of Internal Audit
DATE: May 15, 2024
RE: Update on Current Internal Audit Activities

Internal Audit (IA) typically has multiple audits going on at the same time in different stages. The following is the status of current audits in progress:

Phase 1 – Planning and Notification
Phase 2 – Fieldwork
Phase 3 – Communication with Staff
Phase 4 – Writing Report
Phase 5 – Final Report and Management Response

Internal Audit Activities In-Progress

- Model 2 Partial Salary Review – Phase 5
- TFFR File Maintenance Audit – Phase 1
- Pioneer – Pension Administration Software – User Acceptance Testing (UAT) of the system in progress.

RIO/Investment Activities

IA staff attended the following meetings: monthly manager meetings, monthly staff meetings, monthly Fiscal/Organization meetings, TFFR Agenda Planning, and monthly Retirement Services meetings. IA staff also attended the SIB, TFFR, SIB ERCC, and SIB GPR meetings. IA also attended the SIB Onboarding sessions RIO Fiscal Operations, SIB Governance Manual-Part 3, Risk Strategy, and Internal Investment Management.

Internal Audit staff has been working with Weaver on the risk assessment for the fiscal and investment divisions. In March, IA reviewed the processes and subprocesses for the divisions with the Executive Director, Chief Investment Officer, and Chief Financial Officer/Chief Operating Officer. Next, meetings were held with fiscal and investment staff to discuss processes and review the risk rating. Weekly meetings are held with Weaver that the Supervisor of Internal Audit, Executive Director, Chief Investment Officer, and Chief Financial Officer/Chief Operating Officer attending.

The Supervisor of Internal Audit attended the Executive Review Compensation Committee (ERCC) meetings. Providing the results for the Executive Director surveys (SIB, TFFR, manager, and staff), the Chief Investment Officer board survey, and the Deputy Executive Director/Chief Retirement Officer board survey.

TFFR Activities

For the Pioneer project, User Acceptance Testing continued in April and May of 2024. IA also attended meetings on the benefit payment accounts, disabilities, ESPB file, payroll, QDROS, returned to teach, withdrawals, service retirements, and survivor deaths. Business Partner modules are scheduled to be completed during the summer for review.

For the Model 2 Partial Salary Review, the audit was completed and the report was issued in April 2024.

The Internal Auditor has begun the planning phase for the TFFR File Maintenance Audit. On an annual basis, IA reviews system generated (CPAS) audit tables to ensure transactions initiated by RIO staff are expected and appropriate given their role in the organization. Internal audit staff will be scheduling a meeting with the Chief Retirement Officer and the Retirement Program Manager to review the scope of the audit.

Upcoming Audit Activities

Internal Audit staff will continue to work on the retirement risk assessment and incorporate it into the risk assessment Weaver has been doing for the investment and fiscal divisions. The final results will be incorporated in the audit plan to be presented at the August 2024 Audit Committee meeting.

Internal Audit will be providing assistance to the external audit partners for the 2024 financial audit of RIO, as well as the GASB 68 census data audit. The external auditor typically comes onsite for one week in May or June.

Annual performance evaluations are being completed and should be completed by end of May.

The Supervisor of Internal Audit will be giving a presentation on an Internal Audit Overview as part of the State Investment Board onboarding process on July 17, 2024.

The Internal Audit staff is recommending quarterly reconciliations for the Executive Limitations Audit. With the update to the governance manual and all the changes occurring at RIO, this change ensures that throughout the year nothing will be missed as part of the Executive Limitations Audit. The final report will still be issued in February 2025.

COMMITTEE ACTION REQUESTED: Committee Acceptance.

CHARTER OF THE AUDIT COMMITTEE OF THE NORTH DAKOTA STATE INVESTMENT BOARD

PURPOSE AND MISSION

The Audit Committee (the Committee) is a standing committee of the North Dakota State Investment Board (SIB) created to fulfill its fiduciary oversight responsibilities of the North Dakota Retirement and Investment Office (RIO) and to serve as a communications link among the SIB, the RIO's management and Internal Audit staff, independent auditors, and others.

The Committee will assist with the SIB in carrying out its oversight responsibilities as they relate to the Retirement and Investment Office (RIO) internal and external audit programs, including financial and other reporting practices, internal controls, and compliance with laws, regulations, and ethics. A. The purpose of the internal audit division is to provide an independent, objective assurance and advisory activity designed to add value and improve North Dakota Retirement and Investment Office (RIO's) operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The internal audit division will assist RIO in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

AUTHORITY

The Committee is authorized to provide oversight to the Internal Audit function and the independent audit for the RIO. These activities provide assurance that RIO's financial condition and results of operations are accomplished in accordance with the RIO's policies and procedures and legal and regulatory requirements. The Committee may investigate any activity of the RIO and may retain persons as necessary from within or outside the RIO having special competence to assist the Committee in the accomplishment of its responsibilities.

The RIO's Supervisor of Internal Audit will be the staff member reporting administratively to the Executive Director and functionally to the Committee.

The Executive Director will supervise the administrative activities of the Internal Audit function and independent audit activities such as securing contracts, paying fees, maintaining official reports, and other appropriate activities.

COMPOSITION

The Committee will consist of five members, selected by and approved by the SIB. Three members of the Committee will represent the three groups on the SIB: Legacy & Budget Stabilization Fund Advisory Board, a pension representative, member-at-large, and two members selected from outside of the SIB and the RIO. The SIB should select committee members who are both independent and financially literate.

Membership on the Committee will be for one year or termination of term on the SIB. Vacancies will be filled by the SIB at the first scheduled meeting following the vacancy. There will be no limit to the number of terms served on the Committee.

The Committee will elect a Chair, and a Vice Chair. A liaison will be appointed by the Chair. The Chair will preside at all meetings of the Committee. In the absence of the Chair, the Vice Chair will perform the duties of the Chair. The liaison will report annually to the SIB on the results of the independent audit and at least four times a year to the SIB and TFFR board on the activities of the Committee and other pertinent information.

The Committee may form, and delegate authority to, subcommittees when it deems appropriate.

MEETINGS

The Committee will meet generally four times a year, with authority to convene additional meetings, as circumstances require or to adequately fulfill all the obligations and duties as outlined in this charter.

Meeting agendas will be prepared by the Supervisor of Internal Audit and approved by the Committee Chair, unless otherwise directed by the Committee and will be provided to the Committee members along with briefing materials before the scheduled committee meeting.

Committee members are expected to attend each meeting, in person or via tele- or videoconference. The Supervisor of Internal Audit, a representative of RIO's management team and others necessary to provide information and to conduct business will attend meetings. The Committee may invite staff of the RIO, auditors or others to attend meetings, as necessary. Meetings will be conducted in accordance with NDCC 44-04-17.1. The Committee may hold executive sessions as allowed under state law.

The Committee will act only on the affirmative vote of three of the committee members at a meeting. To conduct business, a quorum will be three members of the Committee. Should a quorum not be present before a scheduled meeting or during a meeting, the Chair will announce the absence of a quorum and the members will disburse. Meeting minutes will be prepared by the RIO, or as otherwise directed by the Committee. Approved meeting minutes of the Committee will be submitted to the SIB.

RESPONSIBILITIES

The RIO's management is responsible for financial and other reporting, internal controls, and compliance with laws, regulations, and ethics. The Committee has the responsibility to provide oversight in the areas of:

- Internal and external audit programs
 - Includes financial and other reporting practices.

- Internal controls
- Compliance with laws, regulations, and ethics

To this end, the Committee will:

Independent Audit

- Review the independent auditors' proposed audit scope and approach, including coordination of audit effort with RIO's Internal Audit staff and any developments in accounting principles and auditing standards that may affect either the financial statements or the audit.
- Inquire as to any proposed changes in accounting or financial reporting procedures and of any unusual events that could impact the financial statements.
- Review the results of the financial statements report with the independent auditors and the RIO's management, prior to the release of the financial statements report to the SIB and other officials. This review will include the following, as applicable:
 - Any major problems encountered by the independent auditors and the resolution thereof;
 - The effect on the audit of any developments;
 - Any unresolved differences between the independent auditors and the RIO's management;
 - Any other significant comments or recommendations of the independent auditors or the RIO's management;
 - The adequacy of the RIO's internal accounting controls and accounting policies, procedures, and practices; and
 - Understand the scope of independent auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with the RIO's management responses.
- Consider the effectiveness of the RIO's internal control system, including information technology security and control.
- Consider whether the financial statements are complete, consistent with information known to committee members, and reflect appropriate accounting principles. This will include the following, as applicable:
 - The accuracy and completeness of the information in other sections of the annual report and related regulatory filings;
 - The significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements; and

- All matters required to be communicated to the Committee under generally accepted auditing standards with the RIO's management and the independent auditors.
- Review non-audit services, if any, performed for the RIO by the independent auditors.

Audit Services

- Consider the effectiveness of the Internal Audit function, within The Institute of Internal Auditors' *International Professional Practices Framework for Internal Auditing* consisting of the *Definition of Internal Auditing, Code of Ethics and the Standards*.
- Review with the Executive Director and the Supervisor of Internal Audit the audit charter, activities, staffing, and organizational structure of Internal Audit.
- Review and approve the annual risk-based audit work plan and all major changes to the plan.
- Bring to attention of the Board any internal audit issues the Committee determines significant and appropriate for Board consideration.
- Participate with the Executive Director in the appointment and annual evaluation of the Supervisor of Internal Audit. Work with the Executive Director on any changes in staffing, including the addition, termination, or replacement of auditors, and the approval of salary increases and/or promotions other than those authorized by the legislature.

Risk Management

- Obtain information and/or training to enhance the Committee's understanding of organization and its related risk management processes.
- Review the adequacy of the organization's policy on risk management.
- Review the effectiveness of the organization's system for assessing, monitoring, and controlling significant risks or exposures.
- Review management's reports on risks and related risk mitigations.
- Hire outside experts and consultants in risk management, as necessary, subject to full board approval.

Compliance

- Review staff compliance with federal and state laws and North Dakota administrative code as applicable to RIO, the SIB and TFFR Board programs, and the process for communicating the code of conduct to the RIO's staff, and for monitoring compliance through the receipt of the audit results.

- Review the process for communicating and monitoring compliance with the code of ethics, code of conduct, and fraud policies.
- Review the findings of any examinations by regulatory agencies, any auditor observations related to compliance, and the responsiveness and timeliness of management's actions to address the findings/recommendations.
- Obtain updates from the RIO's management and legal counsel regarding compliance matters, as deemed necessary.

Reporting Responsibilities

- Report to the SIB about the Committee's activities, issues, and related recommendations.

Provide a written report annually to the SIB, describing the Committee's composition, responsibilities and how they were discharged, and any other information required.

Other Responsibilities

- Make recommendations to the North Dakota State Auditor's Office, when appropriate, as it relates to selection, evaluation, and termination of independent auditors.
- Obtain the information and training needed to enhance the committee members' understanding of the role of Internal Audit and the independent auditor, the risk management process, internal controls, and a certain level of familiarity in financial reporting standards and processes so the Committee may adequately oversee.
- Serve as an open avenue of communication among the SIB, the RIO's management and Internal Audit, the independent auditors, and others.
- Serve as an appropriate confidential body for individuals to provide information on potentially fraudulent financial reporting or breaches of internal control.
- Inquire of management and Internal Audit regarding the procedures in place for the prevention of illegal payments, conflicts of interest, or other questionable practices.
- Perform other activities related to this charter as requested by the SIB.
- Institute and oversee special investigations as needed.
- Review any other reports the RIO issues that relates to the Committee's responsibilities.
- Review and assess the adequacy of the Committee charter annually, requesting the SIB approval for proposed changes.
- Confirm annually the review of all responsibilities outlined in this charter.

DATE OF CREATION OF COMMITTEE AMENDMENTS: December 14, 1993

DATE AUDIT COMMITTEE CHARTER ADOPTED AND APPROVED: June 24, 1994

REVISED: November 22, 1996, February 13, 1997, November 6, 2001, May 19, 2006, May 18, 2007, June 26, 2009, May 19, 2016, January 25, 2019.

INTERNAL AUDIT CHARTER

NORTH DAKOTA STATE INVESTMENT BOARD

I. Purpose and Mission

- A. The purpose of the internal audit division is to provide an independent, objective assurance and advisory activity designed to add value and improve North Dakota Retirement and Investment Office (RIO's) operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The internal audit division will assist RIO in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- B. The internal audit division is established by the State Investment Board (SIB). The internal audit division's responsibilities are defined by the SIB and the Audit Committee as part of their oversight role.

II. Standards for the Professional Practice of Internal Auditing

- A. The internal audit division will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing to the best of their ability. The Supervisor of Internal Audit will report periodically to the Executive Director and the State Investment Board (SIB) Audit Committee regarding the internal audit division's progress to conformance to the Code of Ethics and the Standards.

III. Authority

- A. The Supervisor of Internal Audit will report functionally to the SIB Audit Committee and administratively (i.e., day-to-day operations) to the Executive Director. To establish, maintain, and assure that RIO's internal audit division has sufficient authority to fulfill its duties, the SIB Audit Committee will:
 - 1. Approve the internal audit division charter.
 - 2. Approve the risk-based internal audit plan.
 - 3. Provide input to the Executive Director on the internal audit division's resource plan.
 - 4. Receive communications from the Supervisor of Internal Audit on the internal audit division's performance relative to its plan and other matters.
 - 5. The SIB Audit Committee Chair will participate in the hiring of the Supervisor of Internal Audit.
 - 6. The SIB Audit Committee Chair will participate in the annual evaluation of the Supervisor of Internal Audit.
 - 7. Make appropriate inquiries of management and the Supervisor of Internal Audit to determine whether there is inappropriate scope or resource limitations.
 - B. The Supervisor of Internal Audit will have unrestricted access to, and communicate and interact directly with, the State Investment Board and the SIB Audit Committee, including in executive session and between Board meetings, as appropriate.
 - C. The SIB authorizes the internal audit division to:
-

- D. Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- E. Develop and direct a broad, comprehensive program of internal auditing within RIO.

IV. Independence and Objectivity

- A. The Supervisor of Internal Audit will ensure that the internal audit division remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Supervisor of Internal Audit determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.
- B. Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgement on audit matter to others.
- C. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:
 - 1. Accessing specific operations for which they had responsibility within the previous year.
 - 2. Performing any operational duties for RIO.
 - 3. Initiating or approving transactions external to the internal audit division.
 - 4. Directing the activities of any RIO employee not employed by the internal audit division, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.
- D. Where the Supervisor of Internal Audit has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence and objectivity.
- E. Internal auditors will:
 - 1. Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
 - 2. Exhibit professional objectivity in gathering and communicating information about the activity or process being examined.
 - 3. Make balanced assessments of all available and relevant facts and circumstances.
 - 4. Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgements.
- F. The Supervisor of Internal Audit will confirm to the SIB Audit Committee, at least annually, the organizational independence of the internal audit division.
- G. The Supervisor of Internal Audit will disclose to the SIB Audit Committee any interference and related implications and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

V. Confidentiality

- A. Documents and information given to the internal audit division shall be handled in the same prudent and confidential manner as by those employees normally accountable for them. The Supervisor of Internal Audit shall ensure that internal audit staff is instructed in the handling and safeguarding of confidential information. North Dakota's laws state that all government records must be open to the public unless otherwise authorized by a specific law as outlined in North Dakota Century Code §44-04. Internal Audit will follow North Dakota open records laws.

VI. Scope of Internal Audit Activities

- A. The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments of the State Investment Board, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for RIO. Internal audit assessments include evaluating whether:
 - 1. Risks relating to the achievement of RIO's strategic objectives are appropriately identified and managed.
 - 2. The actions of RIO's officers, directors, employees, and contractors are in compliance with RIO's policies, procedures, and applicable laws, regulations, and governance standards.
 - 3. The results of operations or programs are consistent with established goals and objectives.
 - 4. Operations or programs are being carried out effectively and efficiently.
 - 5. Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact RIO.
 - 6. Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
 - 7. Resources and assets are acquired economically, used efficiently, and protected adequately.
- B. The Supervisor of Internal Audit shall report periodically to the Executive Director and the SIB Audit Committee regarding:
 - 1. The internal audit division's purpose, authority, and responsibility
 - 2. The internal audit division's plan and performance relative to its plan.
 - 3. The internal audit division's status on conformance progress with the IIA's Code of Ethics and Standards, and action plans.
 - 4. Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the SIB Audit Committee
 - 5. Results of audit engagements or other activities.
 - 6. Resource requirements.
 - a) If external assistance is needed to fulfill an engagement.
 - 7. Any responses to risk by that may be unacceptable to RIO.
- C. The Supervisor of Internal Audit also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and advisory service providers as needed. The internal audit division may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided internal audit division does not assume management responsibility.

- D. Opportunities for improving the efficiency of control processes, governance, and risk management may be identified during engagements. These opportunities will be communicated to the to appropriate levels of management.
- E. Advisory Services: RIO's internal audit provides advisory services in an advisory capacity and are generally performed at the specific request of the Executive Director or other senior management. The nature and scope of an advisory engagement are subject to agreement with management. Advisory services may range from formal engagements with defined scopes and objectives to advisory activities such as providing informal guidance in response to general inquiries. When performing advisory services, the internal auditor should maintain objectivity and not assume management responsibility.

VII. Responsibilities

- A. The Supervisor of Internal Audit is responsible to:
 - 1. Submit, at least annually, to the Executive Director and the SIB Audit Committee a risk-based internal audit plan for review and approval.
 - 2. Communicate to the Executive Director and the SIB Audit Committee the impact of resource limitations on the internal audit plan.
 - 3. Review and adjust the internal audit plan, as necessary, in response to changes in RIO's business, risks, operations, programs, systems, and controls.
 - 4. Communicate to the Executive Director and the SIB Audit Committee any significant interim changes to the internal audit plan.
 - 5. Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
 - 6. Follow up on engagement findings and corrective actions, and report periodically to Executive Director and the SIB Audit Committee any corrective actions not effectively implemented.
 - 7. Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
 - 8. Ensure the internal audit division collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
 - 9. Ensure trends and emerging issues that could impact RIO are considered and communicated to Executive Director and the SIB Audit Committee as appropriate.
 - 10. Ensure emerging trends and successful practices in internal auditing are considered.
 - 11. Establish and ensure adherence to policies and procedures designed to guide the internal audit division.
 - 12. Ensure adherence to RIO's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to Executive Director and the SIB Audit Committee.
 - 13. Work towards conformance of the internal audit division with the Standards, with the following qualifications:
 - a) If the internal audit division is prohibited by law or regulation from conformance with certain parts of the Standards, the supervisor of internal audit will ensure

appropriate disclosures and will ensure conformance with all other parts of the Standards.

- b) If the Standards are used in conjunction with requirements issued by other authoritative bodies, the Supervisor of Internal Audit will ensure that the internal audit division conforms with the Standards the best to their ability, even if the internal audit division also conforms with the more restrictive requirements of other authoritative bodies.

VIII. Quality Assurance and Improvement Program

- A. The internal audit division will develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit division. The program will include an evaluation of the internal audit division's conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit division and identify opportunities for improvement.
- B. The Supervisor of Internal Audit will communicate to the Executive Director and the SIB Audit Committee on the progress of the internal audit division's quality assurance and improvement program, including internal assessments. It should be noted that the RIO's internal audit division has not had a quality assurance review and it not in compliance with IIA Standards.

DATE INTERNAL AUDIT CHARTER ADOPTED AND APPROVED:

Section IV: Ends

A. Mission

The Retirement and Investment Office exists in order that:

- Prudent and transparent investment services are provided to SIB client funds and North Dakota public school educators are supported with responsible benefit administration.

The execution of this mission will be evaluated on the following:

- SIB clients receive investment returns, consistent with their written investment policies and market variables, in a cost-effective manner and under the Prudent Investor Rule.
- Potential SIB clients have access to information regarding the investment services provided by the SIB.
- TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner.
- TFFR members have access to information which will allow them to become knowledgeable about the issues and process of retirement.
- SIB clients and TFFR benefit recipients receive high quality services from the boards and staff of the office.

Policy Implemented: October 27, 1995.

Amended: January 27, 2012.

B. Organizational Beneficiaries

RIO beneficiaries (clients) are those which are statutorily defined and those which have contracted for services under statutory authority. Organizational beneficiaries during any fiscal year may be found in the annual financial report.

Policy Implemented: October 27, 1995.

C. Investment Services

The Retirement and Investment Office exists in order that:

1. SIB clients receive investment returns, consistent with their written investment policies and market variables, in a cost-effective manner and under the Prudent Investor Rule.

- a. This “End” will be evaluated based on the following:
 - i. Comparison of client fund’s rate of return NET of fees and expenses, to that of the client’s policy benchmark over a minimum evaluation period of 5 years.
 - ii. Comparison of the client fund’s risk, measured by standard deviation of NET returns, to that of the client’s policy benchmark over a minimum evaluation period of 5 years.
 - iii. Comparison of the risk adjusted performance of the client fund, NET of fees and expenses, to that of the client’s policy benchmark over a minimum evaluation period of 5 years.

2. Potential SIB clients have access to information regarding the investment services provided by the SIB.

Policy Implemented: October 27, 1995.

Amended: November 22, 1996, January 27, 2012.

D. Retirement Services

The Retirement and Investment Office exists in order that:

1. TFFR benefit recipients receive their retirement benefits in a cost-effective and timely manner.
 - a. Retirement program performance quality will be measured against the Ends and retirement policies and administrative rules adopted by the Teachers' Fund for Retirement Board.
2. TFFR members have access to information which will allow them to become knowledgeable about the issues and process of retirement.

Policy Implemented: October 27, 1995.

E. Customer Satisfaction

The Retirement and Investment Office exists in order that:

1. SIB clients and TFFR benefit recipients receive high quality services from the boards and staff of the office.
 - a. The quality of services will be assured by surveying clients at least annually and

beneficiaries upon receipt of services and promptly addressing identified client/beneficiary concerns.

Policy Implemented: December 1, 1995.

F. Fiscal Services

The Retirement and Investment Office exists in order that:

The funds and accounts of SIB clients and TFFR beneficiaries are managed prudently under applicable accounting standards and practices.

This End will be evaluated based on the following:

Internal and external audit reports, internal compliance controls, the publishing of timely and accurate financial statements, and responsiveness and accuracy of reporting to oversight authorities.

G. Internal Audit Services

The purpose of the internal audit division is to provide an independent, objective assurance and advisory activity designed to add value and improve North Dakota Retirement and Investment Office (RIO's) operations.

This End will be evaluated based on the following:

Internal audit reports, the timely completion of internal audit activities, audit committee reports, and responsiveness and accuracy of reporting.

SIB & TFFR Board/Committee Calendar 2024-25

July 2024

July 12, 2024 – Investment Comm @ 9:00 a.m.

July 25, 2024 – TFFR @ 1:00 p.m.

July 26, 2024 – SIB @ 8:30 a.m.

August 2024

August 9, 2024 – Investment Comm @ 9:00 a.m.

August 14, 2024 – SIB Audit Committee @ 2:30 p.m.

September 2024

September 10, 2024 – SIB GPR @ 10:00 a.m.

September 12, 2024 – TFFR GPR @ 3:30 p.m.

September 13, 2024 – Investment Comm @ 9:00 a.m.

September 17, 2024 – SIB Securities @ 10:00 a.m.

September 26, 2024 – TFFR @ 1:00 p.m.

September 27, 2024 – SIB @ 8:30 a.m.

October 2024

October 11, 2024 – Investment Comm @ 9:00 a.m.

October 25, 2024 – SIB @ 8:30 a.m.

November 2024

November 6, 2024 – TFFR GPR @ 3:30 p.m.

November 8, 2024 – Investment Comm @ 9:00 a.m.

November 13, 2024 – SIB GPR @ 10:00 a.m.

November 18, 2024 – SIB Audit Committee @ 2:30 PM

November 21, 2024 – TFFR @ 1:00 p.m.

November 22, 2024 – SIB @ 8:30 a.m.

December 2024

December 5, 2024 – SIB Securities (Tentative) @ 9:00 a.m.

December 13, 2024 – Investment Comm @ 9:00 a.m.

January 2025

January 10, 2025 – Investment Comm @ 9:00 a.m.

January 15, 2025 – SIB ERCC @ 10:00 a.m.

January 23, 2025 – TFFR @ 1:00 p.m.

January 24, 2025 – SIB @ 8:30 a.m.

February 2025

February 4, 2025 – TFFR GPR @ 3:30 p.m.

February 6, 2025 – SIB GPR @ 10:00 a.m.

February 14, 2025 – Investment Comm @ 9:00 a.m.

February 19, 2025 – SIB Audit Committee @ 2:30 p.m.

February 20, 2025 – TFFR (Tentative) @ 1:00 p.m.

February 21, 2025 – SIB (Tentative) @ 8:30 a.m.

March 2025

March 14, 2025 – Investment Comm @ 9:00 a.m.

March 18, 2025 – SIB Securities @ 10:00 AM

March 27, 2025 – TFFR @ 1:00 p.m.

March 28, 2025 – SIB @ 8:30 a.m.

April 2025

April 8, 2025 – SIB GPR @ 10:00 a.m.

April 9, 2025 – SIB ERCC @ 10:00 a.m.

April 10, 2025 – TFFR GPR @ 3:30 p.m.

April 11, 2025 – Investment Comm @ 9:00 a.m.

April 24, 2025 – TFFR @ 1:00 p.m.

April 25, 2025 – SIB @ 8:30 a.m.*

*Meeting time may be adjusted due to Leg. Session

May 2025

May 7, 2025 – SIB ERCC @ 10:00 a.m.

May 8, 2025 – SIB Audit Committee @ 2:30 p.m.

May 9, 2025 – Investment Comm @ 9:00 a.m.

May 16, 2025 – SIB @ 8:30 a.m.

June 2025

June 13, 2025 – Investment Comm @ 9:00 a.m.

June 17, 2025 – SIB Securities (Tentative) @ 10:00 a.m.

June 19, 2025 – TFFR Board Retreat (Tentative) @ 1:00 p.m.



MEMORANDUM

TO: SIB Audit Committee
FROM: Sara Seiler, Supervisor of Internal Audit
DATE: May 1, 2024
RE: 2024-2025 Audit Committee Membership

The Audit Committee is a standing committee of the State Investment Board (SIB) authorized under SIB Governance Policy B-6, Standing Committees. Its primary function is to assist the SIB in fulfilling its oversight responsibilities of the Retirement and Investment Office (RIO) internal and external audit programs, including financial and other reporting practices, internal controls, and compliance with laws, regulations, and ethics.

The committee is comprised of five members selected by the SIB. Three members of the Committee will represent the three groups of the SIB (Legacy & Budget Stabilization Fund Advisory Board, a pension representative, member-at-large). The other two members are to be selected from outside the SIB and have a strong financial, risk, and/or auditing experience. Membership on the Committee will be for a term of one year or until termination of term on the SIB. There is no limit to the number of terms served on the Committee.

Each July, as a new fiscal year gets underway, the SIB is required to review and approve appointments to the SIB Audit Committee. As current members of the SIB Audit Committee your service is greatly appreciated.

Please notify the Supervisor of Internal Audit, Sara Seiler, by Friday, June 3, 2024, if you are willing to continue to serve on the SIB Audit Committee through the end of the next fiscal year (July 1, 2024, to June 30, 2025). The Supervisor of Internal Audit can be reached via phone at 1.800.952.2970 or 701.328.9896 or via email at sseiler@nd.gov.