



**North Dakota
Public Employees Retirement System**

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MEMORANDUM

TO: Audit Committee
Mona Rindy
Adam Miller
Julie Dahle
Dirk Wilke
Senator John Grabinger

FROM: Shawna Piatz

DATE: May 13, 2020

SUBJECT: **May 13, 2020 Audit Committee Meeting**

In Attendance:

Mona Rindy
Julie Dahle
Adam Miller
Senator John Grabinger
Dean DePountis
Shawna Piatz
Scott Miller
Derrick Hohbein
Rebecca Fricke
Sarah Marsh

The meeting was called to order at 10:00 a.m. by Ms. Rindy. The committee began the meeting with approving the prior Audit Committee minutes.

I. February 12, 2020 Audit Committee Minutes

- A. The Audit Committee minutes were examined. Mr. Miller moved that the minutes be accepted. The motion was seconded by Ms. Dahle.

II. Internal Audit Reports

- A. Quarterly Audit Plan Status Report – A summary of the Internal Audit staff time spent for the past quarter was included with the Audit Committee materials. Of the total hours reported, 63.31% was spent in audit, 2.72% in consulting, and 33.97% in administrative hours. A large portion of the audit hours continue to be spent on auditing the retirement program, partially due to a more thorough compliance review being performed on the retirement accounts, as well as increased testing related to the new FAS methodology calculation for new retirees who terminate employment after 12/31/2019. Internal Audit also completed the Contract Process Review and assisted with the Sanford Health Plan

Claims Audit this quarter.

- B. Retirement Benefit Payment Status Report – Information was provided to the Audit Committee, which summarizes the accuracy percentages of the retirement benefit and refund payments. The report shows the number of new retirees or refunds each month, the total number of new retirees or refunds audited, whether issues identified were procedure, system, compliance, or employer issues. An accuracy rate of 96.15% has been achieved fiscal YTD as of April 2020 for new retirement benefit payments, which is slightly under the 97% goal. Single Life and 100% Joint & Survivor benefits continue to be the largest new retiree benefit options. An accuracy rate of 86.89% was achieved fiscal YTD as of April 2020 for retirement refunds, which is below the 97% goal. However, a limited number of retirement refunds were audited and a portion of the sample was focused on those refunds in which a known system issue may have occurred.
- C. Sanford Health Plan Claims Audit Report – Internal Audit assisted in the Sanford Health Plan Claims Audit. The Research and Planning Manager performs the audit of a sample of the claims that have been processed through the medical plan. A couple findings were identified and are being addressed.
- D. IT Risk Assessment Report – A consultant completed an internal vulnerability assessment and penetration test to evaluate internal and external vulnerabilities and threats to the agency. Due to the sensitive nature of the report, the report was not provided to the Audit Committee but a few comments were made in relation to the testing.
- E. Benefit/Premium Adjustments Report – The quarterly benefit adjustment report was provided to the Audit Committee. The report is in several sections, each representing the type of corrections. These adjustments are considered errors, not adjustments made in the normal course of business. The number of errors increased; however, the dollar amount did slightly decline from the prior quarter. The adjustments did not show any noticeable trends.
- F. Outstanding Issues Status Report – As stated in the Audit Policy #103, the Internal Audit Division is to report quarterly to management and to the Audit Committee, the status of the audit recommendations of the external auditors, as well as any found by the Internal Auditor. The report has been updated to reflect what has been accomplished February 1, 2020 through April 30, 2020. Staff reviewed the recommendations with the committee. There was three new and three outstanding issues that continue to be worked through.

III. Administrative

- A. Audit Committee Member Appointment – Mona Rindy was nominated and accepted the position of the Audit Committee Chair. Mona introduced herself during the meeting.
- B. Audit Committee Meeting Date and Time –Discussions were held to move the Audit Committee meetings from the second Wednesday of every third month to the second Monday of every third month to coincide with Board meetings and accommodate travel

schedules. Ms. Dahle motioned to hold the next Audit Committee meeting Monday, August 17 at 3:00pm and then to hold future meetings the second Monday of every third month. Mr. Adam seconded the motion, followed by voice vote.

- C. De minimus Policy & Internal Review Policies Discussion – NDPERS has a De minimis Policy that was reviewed by the Audit Committee and approved by the Board of Directors in 2016. This policy was established to direct NDPERS staff in how to handle the various retirement account errors to wages, service credit, account contributions or interest as they occur. Adjustments to reported wages and service credit may affect a member's ongoing monthly retirement benefits. Adjustments to account balance and accumulated interest affect a member's minimum guarantee or the amount available for a lump sum refund. Prior to the adoption of this policy, NDPERS attempted to correct and process any and all adjustments to member accounts which could become costly and time consuming. A motion was made by Mr. Grabinger to increase the De minimis policy to \$25 for an underpayment and \$50 for an overpayment. The motion was seconded by Mr. Miller, followed by voice vote.

The Board approved an Overtime Pay Policy and Written Agreements Policy in 2017. These policies were established to direct NDPERS staff in how to handle overtime and wage agreement issues as they occur. Discussions took place around whether these policies should be applied on a broader basis to all payroll reporting discrepancies or remain specific to overtime and payments. The Audit Committee directed staff to revise the approved overtime and wage agreement policies to be applied to all payroll reporting issues except for known issues that wouldn't be caught through normal internal review policies. The Audit Committee provided further direction that any reporting corrections that would need to be made should apply to active and deferred member accounts only. The Audit Committee requested staff bring the revised policy to the next Audit Committee meeting for consideration.

Mr. Miller made a motion to continue to audit account balances for refund payments prospectively for active and deferred members and to exclude account balance reviews for annuitant payments unless and until there would be a refund of the account balance at some point in the future. Ms. Dahle seconded the motion, followed by voice vote.

- D. Risk Areas not Included on Audit Plan – Internal Audit provided a list of risk areas that were identified through NDPERS risk analysis but were not included in the upcoming audit plan, based on the request during the prior Audit Committee meeting. A similar list with risk ratings will continue to be provided annually with the updated audit plan.
- E. Internal Audit Budget Request – A summary of the budget request that was submitted to Accounting to consider for the Internal Audit Division as they prepare the 2021-2023 budget was provided to the Audit Committee, for their information.
- F. Annual Performance Evaluation Update – This year the Audit Committee agreed that since the Chief Audit Officer reports directly to the Audit Committee, they would provide their input in her annual performance evaluation, along with that of the Executive Director. Discussions were held around if the annual performance evaluation outcome

was reasonable since the Audit Committee did not have a baseline or previous evaluation to use for comparison. It was determined that to be fair and better reflect the work completed, the overall rating needed to be adjusted. Mr. Miller made a motion to adjust the Chief Audit Officer's overall rating to 3.61, which is in line with the average score of the top five PERS employees. The motion was seconded by Ms. Dahle, followed by voice vote.

- G. External Audit Update – CliftonLarsonAllen (CLA) is scheduled to perform their fieldwork remotely May 18th through 22nd, 2020. Staff has been working on providing support for their preliminary fieldwork.

IV. **Miscellaneous**

- A. Travel Expenditures – The out-of-state travel expenditures incurred by the Executive Director or Board of Directors for the period February 1, 2020 through April 30, 2020 were provided for the committee's review.
- B. Risk Management Report – During a previous review of the Audit Committee's charter, it was determined that a Risk Management Policy for PERS would not be necessary because we have a Loss Control Committee in place to manage risk for the agency. Bryan Reinhardt will come to the August meeting each year to update the Audit Committee on the Loss Control Committee's activity over the past year and to answer questions.

The minutes from the last Loss Control Committee meeting and the agenda for the next meeting were provided to the Audit Committee for their review. The Loss Control Committee reviewed a number of action items as well as several incident reports reported for the previous quarter. It was discussed that active shooter training was completed and the offices were accessed for safety. Some changes were considered.

- C. Report on Consultant Fees – According to the Audit Committee Charter, the Audit Committee should "Periodically review a report of all costs and payments to the external financial statement auditor. The listing should separately disclose the costs of the financial statement audit, other attest projects, agreed-upon-procedures and any non-audit services provided." A copy of the report showing the consulting, investment and administrative fees paid during the quarter ended March 2020 was provided for the Audit Committee's information.
- D. CPEs and Webinars – A report on the continuing professional education webinars, luncheon meetings and seminars Internal Audit participated in for the period February 1, 2020 through April 30, 2020, which Internal Audit did not attend any in the prior quarter, was provided for review.
- E. Publications – A copy of Accounting and Financial Reporting Considerations for Audit Committees Regarding COVID-19 from the Deloitte Audit Committee Brief from April 2020, was provided for the Audit Committee's information.
- F. Confidential Meeting – Discussions took place around removing the confidential meeting

as an agenda item from each Audit Committee meeting and instead scheduling as an executive session only as needed. All Audit Committee members agreed; therefore, this was removed for future Audit Committee meetings.

Meeting adjourned at 12:15 p.m, by Ms. Rindy.

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