

**Audit Committee Meeting  
October 25, 2010**

**Agenda**

- 8:00 a.m.    **Call to order**  
                  Approval of June 30, 2010 Minutes
- 8:05 a.m.    **Chairman's Report**
- Audit Committee goals
  - 2011 schedule of meetings
- 8:15 a.m.    **Internal audit presentation** (via conference call)  
                  *Tim O'Brien, FPPA Internal Auditor*
- Internal audit plan 2011
  - Review of employer contributions auditing process
  - Review and approval of 2011 contract
- 9:00 a.m.    **Break**
- 9:15 a.m.    **Clifton Gunderson presentation**  
                  *Bill Petri, Relationship Partner*  
                  *Steve Shanks, Senior Manager*
- Audit plan
  - Audit scope
  - Audit responsibilities
  - Management responsibilities
  - Fraud discussion
  - Key risks
  - Audit timetable
  - Discussion: Audit Committee 2010 audit presentation
  - Coordination between FPPA internal auditor
- 10:45 a.m.    **Adjourn**

## **FIRE AND POLICE PENSION ASSOCIATION**

Minutes – Audit Committee Meeting

October 25, 2010

FPPA Office  
5290 DTC Parkway, Suite 100  
Greenwood Village, CO 80111

**BOARD MEMBERS PRESENT:** Chairman Jack Blumenthal, Lyle Hesalroad and Leo Johnson.

**STAFF MEMBERS PRESENT:** Dan Slack, Kim Collins, Kevin Lindahl, and Janette Hester.

**OTHERS PRESENT:** Tim O'Brien, FPPA Internal Auditor (via teleconference); Bill Petri, Relationship Partner, and Steve Shanks, Senior Manager, with Clifton Gunderson.

*Notice of this meeting and a copy of the agenda were posted in the building lobby of the FPPA office and on the FPPA website at least twenty-four hours prior to the meeting.*

At 7:59 a.m., Audit Committee Chairman Jack Blumenthal called the meeting to order. He noted for the record that Tim O'Brien was in attendance via teleconference. Mr. Blumenthal called for approval of the minutes of the June 30<sup>th</sup> audit committee meeting. Lyle Hesalroad moved to approve the minutes of the June 30, 2010, audit committee meeting. Leo Johnson seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY. Mr. Johnson, who was not a member of the audit committee at the time of the June meeting, abstained.

Mr. Blumenthal stated that the goal of the first audit committee meeting had been to establish a committee charter. He noted that this goal was accomplished and the charter was approved by the board at the July board meeting. Mr. Blumenthal suggested that the audit committee establish 2011 goals at today's meeting. He noted that these goals would determine the schedule of meetings. Mr. Blumenthal proposed two goals for committee consideration. Following discussion, the committee approved by consensus the following 2011 audit committee goals:

1. The audit committee will thoroughly discuss issues presented by the internal auditor and the independent auditor and, subsequently, present a concise overview at the subsequent board meeting. The audit committee may receive information directly from the auditors, by internal communications between Clifton Gunderson and senior management, and by reviewing issues on websites, such as GASB. The committee may then determine the proposed position of FPPA and recommend that to the board at the next board meeting.

2. The audit committee will determine the relationship between the internal auditor's plan and the independent auditors' plan to avoid duplicitous audit scope.

Mr. Blumenthal suggested establishing goals for the 2011 audit plans.

It was the consensus of the audit committee that the purpose of audit plans was to accomplish the following three goals:

- Keep the FPPA organization financially sound (under control).
- Coordinate the activities of internal audit and the independent auditors.
- Ensure accuracy of all benefits paid by the organization.

Mr. Blumenthal referred the committee to the draft internal audit plan for 2011 provided in the audit packet by Mr. O'Brien. Mr. Blumenthal stated that the committee should thoroughly review the proposed internal audits and consider their approximate costs prior to the October 28<sup>th</sup> board meeting, when the board would be reviewing the first draft of the proposed 2011 budget. Mr. Blumenthal expressed his concern for increasing any budget spending, particularly in view of the economic environment and in light of the board and committee's fiduciary responsibility to beneficiaries.

At Mr. Blumenthal's request, Mr. O'Brien provided background information regarding how the internal audit plans and the auditor's contract fees had been determined in past years. Mr. Blumenthal asked Mr. O'Brien to approximate his fees for completing each of the five audit items listed on the draft internal audit plan. Mr. O'Brien provided his hourly fee and estimated the approximate hours required to complete the proposed 2011 internal audit plan. Mr. O'Brien noted that he had included deeper investigation and study in certain areas in which the committee had previously expressed concern. He noted that his draft internal audit plan did not include employer audits. Mr. O'Brien stated that his services and the scope of the proposed audits could be adjusted to more appropriately align with the proposed 2011 budget allocation.

Mr. Blumenthal referred the committee to the draft internal audit plan and, subsequently, he requested that the five draft internal audit areas for 2011 be prioritized by Bill Petri and Steve Shanks of Clifton Gunderson, by Mr. O'Brien, and also by Kim Collins. Ms. Collins noted that the internal audits could probe more deeply than the independent audits. She also noted that the board had recently indicated more internal audits should be considered and these were the directions given to Mr. O'Brien in preparing his draft. Mr. Johnson suggested the audit committee approve fewer audits with the option to add more audits at an additional fee, if serious issues were later discovered. Following discussion, the committee determined that the priority for the draft 2011 audit plans would be:

1. Audit of non-retiree payroll expenditure (FPPA operating and payroll), at an approximate cost of \$8,000.
2. Audit of retirement, death and survivor benefits, at an approximate cost of \$8,000-\$10,000. If this audit were expanded to include an audit of employer contributions, the fee would increase.
3. Audit of disability retirement benefits, at an approximate cost of \$8,000-\$10,000. If this audit were expanded to include employer records, the fee would increase.

Clifton Gunderson confirmed that the two remaining internal audits on the draft were already included as a part of the independent audits:

1. Audit of member data changes.
2. Audit of investment accounting and controls.

Mr. Blumenthal then called for discussion of the 2011 audit committee meeting dates. Tim O'Brien suggested that audit committee meetings could coincide with board meetings in order to make timely audit reports to the entire board. Dan Slack stated that the final internal audit for 2010 was in process and could be presented at the December board meeting. It was the consensus of the audit committee to include a copy of all internal audit reports in board meeting packets and to request a presentation by the internal auditor only when high-level issues were discovered that should be addressed by the entire board. Mr. Johnson suggested having another audit committee meeting in 2010. It was the consensus of the committee to schedule an audit committee meeting at 7:30 a.m. on December 9, 2010, and to request a delay for the start of the December board meeting until 8:30 a.m. on that date. Mr. O'Brien dropped off the conference call at 9:00 a.m.

Mr. Slack provided a copy of the 2011 internal auditor's contract for review by the audit committee. Mr. Blumenthal stated that the total annual compensation would be determined by the 2011 audit plan priority. Mr. Slack suggested using the scope of the audits to control costs. Mr. Blumenthal suggested that each audit should focus only on items that provide high-yielding data. Mr. Slack asked if the committee favored including audits of employers' records. It was the consensus of the audit committee to recommend setting total annual compensation for the internal audit contract not to exceed \$25,000. Ms. Collins noted that the board can make a budget amendment, if the audit committee determines that more audits are necessary. Mr. Blumenthal asked Mr. Slack, as internal audits proceed, to establish the scope of the internal audits with Mr. O'Brien and forward that information to him for review. Mr. Blumenthal will forward that information by email or phone call to all committee members for review and approval. After reviewing Mr. O'Brien's completed audit reports, Mr. Blumenthal will contact committee members to discuss

and determine if any issues are serious and whether an audit committee meeting needs to be scheduled. The committee recessed for break.

The committee reconvened for the Clifton Gunderson Financial Statement Audit Plan presentation for year ending December 31, 2010. Mr. Petri summarized the task requirements agreed upon by contract with FPPA and explained Clifton Gunderson's responsibilities in the audit of financial statements. Mr. Petri reviewed the limitations and procedures for completing the audit, and he addressed how the issue of any potential fraud would be handled. At the request of Mr. Blumenthal, Mr. Petri agreed to provide a letter for the audit committee with bullet points of any significant issues discovered during the audit of FPPA systems, as well as any observations as to where the organization could be more efficient. Mr. Petri stated that the testing of contributions and distributions would be based on random sampling of the population of members.

Mr. Shanks then provided a review of significant processes and audit areas. He stated that investment income will test the fair value estimate as of December 31, 2010, and more emphasis will be placed on alternative investments and how they are structured. Mr. Shanks reviewed the general audit approach in testing employer, member and state contributions and the defined benefit distributions. He reviewed the financial statement process. Mr. Shanks provided a tentative schedule for all aspects of the audit process and estimated the project would require 800 budgeted hours.

Mr. Petri and Mr. Shanks will present their report to the board at the April 28, 2011, board meeting. If there is any issue of concern, Mr. Petri will send a letter to the audit committee prior to the board meeting and schedule a time to discuss any issues with the audit committee. Ms. Collins requested that any audit committee meeting be set by mid-March to allow sufficient time to prepare reports for the April board packet. Mr. Petri and Mr. Shanks answered questions from the audit committee. Mr. Blumenthal requested that Clifton Gunderson provide a chart on changes in investment return assumptions of their clients, as well as provide their opinion on appropriate actuarial assumptions.

At 10:22 a.m., Mr. Johnson moved that the meeting adjourn. Mr. Hesalroad seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.