

**Audit Committee Meeting
April 18, 2011**

Agenda

- 8:00 a.m. **Call to order**
Jack Blumenthal, Chairman
- Approval of Minutes, December 9, 2010, Audit Committee Meeting**
- 8:05 a.m. **Financial statement report**
Clifton Gunderson
- 9:05 a.m. **Executive session – Audit Committee and Clifton Gunderson only**
- 9:20 a.m. **Break**
- 9:30 a.m. **Management Letter report**
Clifton Gunderson
- 10:15 a.m. **Break**
- 10:25 a.m. **Internal audit reports**
Tim O'Brien, Internal Auditor
1. Audit 2010-03, Payroll and Operating Expenditures
 2. Audit 2011-01, Disability Benefit Calculations for the Statewide Death and Disability Plan
 3. Proposed audit plan 2011-2013
 4. Remaining 2011 audits
- 10:55 a.m. **Evaluation of Clifton Gunderson**
- 11:10 a.m. **Adjourn**

FIRE AND POLICE PENSION ASSOCIATION

Minutes – Audit Committee Meeting

April 18, 2011

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

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

STAFF MEMBERS PRESENT: Dan Slack, Kim Collins, Gina McGrail, Melanie Winters, Jeff Kaszubowski and Janette Hester.

STAFF MEMBERS NOT PRESENT: Kevin Lindahl (excused), J. Scott Simon (excused)

OTHERS PRESENT: Tim O'Brien, FPPA Internal Auditor; Bill Petri, Steve Shanks, and Myriah Milton, Clifton Gunderson LLP.

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 7:58 a.m., Audit Committee Chairman Jack Blumenthal called the meeting to order. Chairman Blumenthal called for approval of the minutes of the December 9, 2010, audit committee meeting. Leo Johnson moved to approve the minutes of the December 9, 2010, audit committee meeting as submitted. Lyle Hesalroad seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

2010 Independent Audit of FPPA Financial Statements

Chairman Blumenthal welcomed the independent audit firm of Clifton Gunderson LLP and called for the presentation of the independent audit report of the financial statements of FPPA. Bill Petri, Steve Shanks and Myriah Milton explained their individual responsibilities during the audit process. Mr. Petri provided a copy of FPPA Financial Statement Audit as of December 31, 2010. He reviewed the audit procedures and the auditor's reports on FPPA financial statements, internal controls over financial reporting and compliance issues. Mr. Petri reported that the auditors utilized a risk-based procedure and identified significant processes within the following groupings:

- Investments and related income processes
- Contribution processes
- Benefit payment processes
- Financial close and reporting

The auditors tested the effectiveness of the controls surrounding the benefit payment process for the Fire and Police Members' Benefit Investment Fund and determined that controls were properly designed and were implemented as designed. Mr. Petri reported that the audit addressed the consideration of fraud and found no biases that could result in misstatement and no errors with journal entries. The auditors evaluated revenue recognition policies and the business rationale for any significant unusual transactions.

The auditors interviewed different levels of personnel on FPPA's staff and others charged with governance. No issues of concern were found. Mr. Petri and Mr. Shanks verified that computer penetration access and password protection system controls are routinely monitored and managed appropriately. Mr. Petri reported an increased scope of testing in contributions to the DROP/SRA assets in custody with Fidelity and payments from the Defined Benefit System. He reported these payments were related to SRA payments from the benefit system and were subsequently paid to Fidelity in accordance with the members' directions.

In the investment and investment income (loss) audit, Mr. Petri described the confirmation procedures, completeness testing, fair value testing, examination of related control reports, investment earnings, compliance to the investment policy and allocation of investments. Mr. Petri said the confirmation process confirmed with Bank of New York Mellon (BNY Mellon) and Fidelity for investments held and transactions related to the Fire & Police Members' Benefit Investment Fund and the Self-Directed Investment Fund. The auditors received positive confirmations from BNY Mellon and Fidelity regarding the investments.

The confirmation process selected individual private capital, real assets and opportunistic investments for confirmation with the investment managers for the funds. The auditors confirmed the fourth quarter valuation adjustment recommendation from Hamilton Lane with no exceptions noted. Fixed income, global equity and absolute return investment categories within the funds were selected for confirmation and no material variances were noted from the amounts reported by the fund managers to the balances reported by FPPA and BNY Mellon. Mr. Petri reported testing the fair value estimates of the global equity, fixed income, absolute return, private capital, real assets and opportunistic categories of investments and the differences were projected over the complete population. He reported the extrapolated difference was immaterial and was comparable to the adjustment made for the fourth quarter evaluation previously noted.

Fair value estimates from the defined contribution plans' asset were tested and no variances were noted from the published rates. Investments from the defined contribution plans' Brokerage Link accounts were tested and the extrapolated difference was immaterial. All reports on controls in operations and tests of operating effectiveness from fund managers were evaluated by an independent auditor with unqualified (clean) opinions.

Mr. Petri explained the testing methods used by auditors to test compliance to the investment policy and the allocation of the investments in the Members' Benefit Investment Fund. He explained the methods used to test the accuracy of investment earnings and noted no exceptions in the three testing methods. He answered questions from the audit committee.

Mr. Petri reported on the selection of employers to confirm amounts of contributions to the members' fund, which included member deferrals, employer matches, and state matching contributions to the plans. Auditors noted the extrapolated difference was immaterial. The confirmation process of selected members to confirm their deferrals to the 457 Deferred Compensation Plan noted no exceptions. Mr. Petri reported that members were selected to confirm census data with the actuary and to confirm data with their employers with no exceptions noted. There were no errors noted in the recalculation of contributions for member deferrals and employer match procedures. He reported that all contributions received on behalf of members were totaled and compared to contributions recorded for the Funds in total with no material variances noted. And contributions not received on behalf of members were compared to the expected or required amount per the actuary valuation reports with no material variances noted. Ms. Milton verified that all volunteer department contributions were cross selected, confirmed separately, reviewed in depth and compared to the actuary.

Mr. Petri reported that audit procedures in relation to distribution testing included:

- Confirmation procedures
- Test of effectiveness of controls
- Recalculation and eligibility procedures
- Completeness testing

The auditors confirmed benefits of selected members to determine the accuracy of the authorized amount and noted no variances in the retirees' census data provided by the actuary. Tests of effectiveness of selected controls for payments made from the Fire & Police Members' Benefit Investment Fund were performed and controls were found to be reliable.

For payments made from the Fire & Police Members' Self-Directed Benefit Investment Fund, reports on controls in operations and tests of operating effectiveness from Fidelity Investments Institutional Operations Company, Inc., Defined Contribution Recordkeeping Services were reviewed. The auditors noted no exceptions in the report regarding the payment process or the related user controls and were able to place reliance on the controls.

The auditors recalculated payments for newly retired members in the Defined Benefit System and the Statewide Death & Disability Plan and determined they were receiving the prescribed benefits, that payment was received by the member at their direction, and that the retiree was eligible for payment. Prior existing

benefits were compared to current benefits and were tested to determine that changes were allowable due to COLA or changes in members' status. The auditors determined that the refunds of selected members of their Fire & Police Members' Benefit Investment Fund balance plus interest was paid at the members' discretion and that the member was eligible to receive payment. There were no exceptions noted in the testing.

The auditors agreed that the payments to selected members in the Self-Directed Benefit Investment Fund were made in accordance to the members' directions and that the member was eligible to receive the payment. No exception in the testing was noted for selected members to their SRA account balance. The selected members were eligible to receive payment and payment was made in accordance with the members' direction. Each payee selected was verified that they were the authorized payee as a member or a beneficiary and the authorized payees were compared to data bases for deaths. The auditors noted no deceased payees received a payment.

Mr. Petri reported in the completeness procedures that the payments reported by Fidelity of the Fire & Police Members' Self-Directed Benefit Investment Fund by payee agreed without exception to the total reported amounts per FPPA. The auditors confirmed the detail of benefit payments and refunds by payee agreed in total by plan for the Fire & Police Members' Benefit Investment Fund without material exception.

Mr. Petri reported reconciliation with all financial statement numbers in the basic financial statements to groupings in the general ledger, using the GFOA reporting preparers' checklist for pension and other post-employment benefit systems to assess the presentation of the financial statements. All information included in the basic financial statements, notes to the financial statements, and required supplementary information was agreed to audited financial data.

Mr. Petri congratulated the FPPA organization on a clean, unqualified report. Mr. Petri, Mr. Shanks and Ms. Milton answered questions from the audit committee and concluded their presentation of the audit report.

Kim Collins provided a copy of management's discussion and analysis of the financial activities of FPPA for the year ended December 31, 2010. Ms. Collins stated that the auditors reviewed the financial information of the two funds administered by FPPA: the Fire & Police Members' Benefit Investment Fund and the Fire & Police Members' Self-Directed Investment Fund ("the Funds"). This asset information of the Funds held at Fidelity Investment is compiled by the organization itself and all numbers in the analysis correspond to the basic financial report.

Ms. Collins reported the gross rate of return on the Fire & Police Members' Benefit Investment Fund was 14.26%. She reported plan net assets for all plans administered by FPPA increased \$314,956,021 during the calendar year 2010. The

net investment gain for all of the funds, including the Fire & Police Members' Self-Directed Investment fund administered by FPPA, was \$402,065,952 for the year ended December 31, 2010. Ms. Collins provided a table comparing the funding ratio (actuarial value of assets divided by actuarial accrued liability) for each of the plans in the Defined Benefit System and the Statewide Death & Disability Plan as of January 1, 2010, and January 1, 2009. She stated that FPPA's funding objective is to meet long-term benefit promises through contributions and investment income. She reported the funding ratio held steady with all plans. Ms. Collins provided a condensed version of the Financial Statements. She reported \$3.1 billion in net assets available in the Benefit Investment Fund and \$248 million in net assets available in the Self-Directed Investment Fund. Ms. Collins reported a 14.1% increase in employer contributions in 2010 over 2009. She reported that there are only 18 old hire active members remaining that have not elected DROP. She explained that when these members go into DROP, those members contributions go into the Self-Directed Fund, causing a slight decrease in closed plan contributions. In addition, the employer becomes responsible for the contributions as membership decreases. Ms. Collins also noted a decrease in position replacements and new hires. She reported one disaffiliation and one affiliation in 2010. She answered questions from the audit committee.

Chairman Blumenthal stated that the audit report will be approved by the board as a whole, following a detailed review and a recommendation to approve by the audit committee. A copy of the audit report is to be provided in the April board packet.

Mr. Petri and Mr. Shanks provided a review of the statement of plan net assets and the statement of changes in plan net assets available for pension benefits. Mr. Shanks noted changes in investment names to more appropriately match the financial statements with the investment policy for combined total tracking purposes. He reported good earnings from 2010 positively affected the combined totals. Mr. Shanks explained the testing of receivables and the agreement of any pending sales of assets, review of reports and statements, and selection of some sales as of year-end for proper classification. He reported on changes in net plan assets, noting that the decrease in contributions was due to fewer affiliations in 2010. Mr. Shanks reported on the testing of appropriate allocation and the testing of changes in plan net assets among the pension plans and the Funds. He answered questions from the audit committee.

Mr. Petri reviewed the notes to the Financial Statements and the summary of significant policies, including accounting and reporting, investments, property and equipment, income taxes, member transactions, estimates and reclassification of prior year amounts for comparative conformity. He noted there was a new pronouncement in 2010, as GASB issued Statement No. 53 on derivative investments. The auditors reviewed how the organization records those and were satisfied that the new requirement was addressed properly.

The auditors reviewed all the plans, the contributions, the funding status, and significant factors affecting trends in actuarial information. Mr. Petri reported auditors have observed that most pension plans continue to assume about 8% investment rate of return and the auditors would alert the board if they noticed a prevalent change in the industry. Mr. Petri answered questions from the board regarding testing of actuarial assumptions completed by the auditors. Dan Slack noted FPPA will conduct an actuarial experience study in 2011 to address this issue.

Mr. Petri continued a review of notes to the Financial Statement, including the disclosure of deposits and investments, cash deposits and short term investments and the assets in commingled mutual fund investment vehicles. He provided comments regarding exposure to various risks, including custodial credit risk, credit risk, interest rate risk, and foreign currency risk. Mr. Petri reported FPPA does not maintain any investments representing more than 5% of total investments, so there is no concentration of credit risk. He reported FPPA has no formal policy for custodial credit risk for investments. As of December 31, 2010, FPPA had exposure to cash currency deposits in the amount of \$254,585,692 which would be exposed to custodial credit risk, since these deposits are not collateralized or insured. Mr. Petri reported FPPA utilizes effective duration as the primary measure of interest rate risk. He noted FPPA has established and monitors specific guidelines regarding the types, exposures and quality of securities within each portfolio. Mr. Petri reported that the term and duration of interest rate in the total portfolio is appropriately mitigated.

Mr. Petri reviewed the 457 Deferred Compensation Plan and the various policies and contributions related to that plan. He reviewed notes on depreciation of property and equipment, exposure to risk of loss, and issues regarding the employee retirement plan (PERA) and post-employment benefits. Other notes commented on by Mr. Petri included the defined contribution plan, the risk of derivative instruments, foreign exchange contracts, equity futures and financial futures and options. The final comment concerned commitments and contingencies involved in claims and legal actions arising in the ordinary course of business. Mr. Petri provided supplementary information regarding the schedule of funding progress and actuarial information (unaudited) by plan. Mr. Petri answered questions from the audit committee.

As directed by Chairman Blumenthal, Ms. Collins and Jeff Kaszubowski will work with Clifton Gunderson LLP in providing board members with appropriate audit details and credit risk information to assist them in executing their fiduciary duty to the organization.

Mr. Petri provided a confidential handout letter regarding compliance with GASB in reporting material weaknesses, significant deficiencies, and instances of non-compliance in auditing the organization that should be reported to the governing body. Mr. Petri reported Clifton Gunderson found none and declared a clean audit.

Mr. Petri provided a confidential copy of the Management Letter Comments dated December 31, 2010, and reviewed the findings and recommendations. He reported recommendations identified and reported on in the prior year were still in existence during the course of the 2010 audit.

- (1) Employer and member contribution are combined for the IRC 457 Deferred Compensation Plan.

Recommendation: After completing the record keeper evaluation, changes to ASPEN and the record keeping system should be implemented to allow separate tracking of member deferrals and employer contributions.

Staff response: Ms. Collins reported that, subsequent to this letter, all recommended internal control changes to ASPEN were completed on March 1, 2011.

- (2) Weaknesses in general and application controls were found in ASPEN and Dynamic Great Plains, particularly related to Security Management, Access Control, Configuration Management, and Contingency Planning. While written policies are not in place, CG did note however, that FPPA has implemented effective processes.

Recommendation: Several information technology security policies and procedures should be formally written to strengthen IT controls.

Staff response: Ms. Collins reported that they were working to develop written policies. She will provide an update at the September/October audit committee meeting.

- (3) The FPPA computer room does not have an adequate fire suppression mechanism in place.

Recommendation: Clifton Gunderson recommends that FPPA continue to evaluate backup options through Agility Recovery Solutions and implement an off-site backup service to reduce FPPA's Recovery Point Objective to less than 24 hours.

Staff response: Ms. Collins reported that management is finalizing research for off-site backup services or cloud solutions and will be implemented in 2011. She stated that the recovery time frame is projected to be 2-4 hours.

Mr. Petri concluded the 2010 audit report. The meeting recessed for break.

Mr. Johnson made a motion to adjourn into executive session to discuss audit matters with the auditors from Clifton Gunderson LLP. Mr. Hesalroad seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.

In executive session, the Audit Committee, inquired of the auditors whether they had any issues during their engagement, which they have not discussed or presented in the presence of management which they believe should be discussed with the audit committee, whether management had been open in discussions to the best recollection of the auditors, and likewise were there any recommendations which had not been brought up. The auditors responded that there were no such issues or problems.

At 9:45 a.m., Mr. Johnson moved to leave executive session. Mr. Hesalroad seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY. Chairman Blumenthal stated that no final action, votes or motions were made or taken during the executive session. Mr. Petri, Mr. Shanks, and Ms. Milton left the meeting.

Internal Audit of Payroll & Operating Expenditures

The open session of the audit committee meeting resumed. Tim O'Brien presented the Internal Audit of Payroll & Operating Expenditures ending December 31, 2010. He reviewed the objectives, scope, methodology and assumptions and audit standards. For staff payroll expenditures, one exception was observed regarding PayChoice, a new service provider employed during 2010. This exception was remedied in a timely manner and no penalty payment was incurred by FPPA due to late reporting of withholding to the state of Colorado by the third party vendor.

Mr. O'Brien reported two exceptions in auditing the operating expenditures.

- (1) The cost of a new generator was properly capitalized in accordance with FPPA's policy for capital assets. However, the cost of installing the generator was not separated from the project and the labor was never capitalized and cannot be depreciated. Because the invoice was paid in 2010 and the books have been closed, the impact of this transaction cannot be reversed.

Recommendation: Mr. O'Brien's recommendation is that FPPA should comply with its stated policy for capitalizing fixed assets.

Staff response: Ms. Collins responded that staff agrees with the recommendation and explained that this particular invoice included other maintenance projects in the total amount. She stated that staff chose the more conservative route and expensed the labor since the vendor was unable to split out the components of the job. The total

labor amount expensed was \$32,087. Staff will comply with the policy for capitalizing fixed assets.

- (2) FPPA owns and occupies a portion of 2 DTC and rents commercial building space. The third party property manager reports that real estate property taxes are budgeted but no amount is paid to the county. The commercial space rented is subject of real estate property taxes.

Recommendation: Mr. O'Brien's recommendation is that FPPA should determine if it has any liability for property taxes on the rented commercial space.

Staff response: Ms. Collins reported that Arapahoe County has not invoiced the FPPA building for property taxes for several years. FPPA has directed the property manager to collect taxes from the tenants on an annual basis per the individual lease, in the event that Arapahoe County would assess the building. Those taxes are rebated in the next year to the tenants after the property manager determines that a tax bill will not be issued. FPPA's General Counsel opined that the property tax escrow procedure in place for the potential payment of property taxes by the tenants is in line with previous directions given to the property manager. There does not need to be a tax escrow account in place, once the Arapahoe County Treasurer has issued the tax bills for the previous year and the property manager has confirmed that no taxes are due for the property. FPPA General Counsel recommended that the property manager order a "Certificate of Taxes Due" from the County Treasurer after the tax bills are issued each year. Once the Certificate is received, if no taxes are showing due, then the escrow accounts for the previous year can be released. The property manager has been notified of the change of procedure. FPPA will continue to budget for taxes, but anticipate a \$34,138 annual savings as a result of this process.

Chairman Blumenthal requested that the commercial leases be reviewed as they come up for renewal and all future leases be amended with the clause of "payment in lieu of taxes" in the event that any future taxes are collected by the state.

Mr. O'Brien reviewed prior audit recommendations.

- (1) **FPPA should reconcile, or require its payroll service to reconcile, the payroll register to the withholding reports filed with federal and state government.** *Status: Implemented.*
- (2) **FPPA should perform a total compensation study of the salary and benefits provided to its employees.** *Status: In process.*

- (3) **FPPA should refine its written procedures to identify duplicate payments.** *Status: Implemented.*
- (4) **FPPA should develop written procedures to process these types of transactions.** *Status: Implemented.*

Internal Audit of Disability Benefit Calculations for the Statewide Death & Disability Plan

Mr. O'Brien presented the Internal Audit of Disability Benefit Calculations for the Statewide Death and Disability Plan during the 15-month period ended February 28, 2011. He reviewed the audit objectives, scope, methodology and assumptions and audit standards for the death and disability benefit calculations. He reported no exceptions to all calculations of disability retirement and any offsets. He noted that, in addition to the ASPEN system, FPPA maintains spreadsheets to calculate offsets for Money Purchase Plans and SRA assets. Mr. O'Brien commended FPPA on the medical disability process that includes routine exit interviews conducted by staff. As a result, FPPA receives honest feedback from the member regarding the doctors' preparation and thorough knowledge of the physician's report. Mr. Slack noted that the exit interviews are a valuable tool in the physician evaluation process.

Recommendation: Mr. O'Brien recommended that FPPA should continue to retain and update spreadsheets used to calculate disability retirement benefits and offsets.

Staff response: Staff agrees with the recommendation and will continue to retain these spreadsheets.

Mr. O'Brien reviewed prior audit recommendations.

- (1) **FPPA should assure that the Member Handbook and state law are in agreement when describing offsets for Money Purchase Plan and Separate Retirement Accounts.**

Staff response: Staff has reviewed the language in the handbook and believes it to be in agreement with the statute and the legislative intent, to keep all members covered by the Statewide Death and Disability plan equal, regardless of pension coverage and contribution rate. Disabled members with a contribution rate above 16% are not "penalized" for having a higher contribution rate or for contributing on a voluntary basis.

Staff intends to propose a rule change in 2011 to lay out how the offset is calculated. Currently, this is documented in FPPA's internal

procedures and programmed into the ASPEN systems by staff feels the information would be more accessible to members if contained in rules.

- (2) **FPPA should regularly review and test spreadsheets used to calculate disability retirement benefits and any offsets.**

Staff response: The manual spreadsheets have been replaced by the benefit calculation engine programmed into ASPEN. GRS reviewed all spreadsheet calculations prior to this conversion. The spreadsheets are now used only as a back-up, for testing the ASPEN functionality, and for audit purposes. They continue to be revised by GRS, as needed, so that they remain accurate for these purposes.

- (3) **FPPA should assure that annuity tables used in calculating retirement benefits are current and relevant.**

Staff response: The mortality tables are reviewed periodically as part of the actuarial experience study and are updated as appropriate. Since 2008, FPPA has moved to using a blended table when calculating disability benefits. This has addressed the issue of a totally disabled member having a lesser benefit than an occupationally disabled member. This change was made in conjunction with ASPEN programming. The use of blended tables was approved by the board.

- (4) **FPPA should review and confirm the rationale for offset for Money Purchase Plan and Separate Retirement Accounts and the practice of adding prior distributions in the offset calculation. If appropriate, change or eliminate these offsets. Removing these offsets would increase the cost of the plan.**

Staff response: Following internal discussion, staff concurred that the money purchase and SRA offsets are in place to ensure that all members, regardless of pension coverage, are treated equally under the Statewide Death and Disability Plan. Further, the offsets and the "add in calculation" remain appropriate as they help to ensure that members are not permitted to "double dip" by receiving full distributions from both the pension plans and the Statewide Death and Disability Plan. The current method of calculation and use of the actuarial rate was approved by the board in 1997 as a matter of policy. However, staff has discussed the use of the actuarial rate of return to apply to the withdrawn assets when preparing the "add-in" calculation. FPPA plans to raise this issue with the board in the context of the actuarial experience study discussion later this year.

Proposed Internal Audit Plan

At the December 9, 2010, audit committee meeting, Chairman Blumenthal requested that Mr. O'Brien provide a 3-year cycle of audits to be completed on a rotating basis that would match the plan of the audit charter. Mr. O'Brien provided a proposed list of internal audits for 2011, 2012 and 2013 that he believes aligns with the charter and addresses the issues of concern expressed by the audit committee. Mr. Slack stated that the audit committee had identified and prioritized three internal audits for 2011, which the board subsequently approved: (1) Non-retiree Payroll Expenditures, (2) Retirement – Death and Survivor Benefits and (3) Disability Retirement Benefits (completed).

At Mr. Slack's request, Ms. Collins provided details of a recent conversation she conducted with a Public Employees' Retirement Association (PERA) retirement manager regarding employer audits established by PERA. Ms. Collins reported that FPPA does not currently have express statutory authority to conduct employer audits.

Mr. O'Brien reported that the two additional audits he proposed for each year in the cycle would raise his annual contractual agreement amount to about \$50,000 from the current contract of \$26,000. He reported that his goal for each 3-year cycle would be to give coverage to the main areas in which FPPA operates. Mr. O'Brien stated that the proposed audits could be reviewed in 2012 and a particular audit could be moved to a different year, depending on issues of concern that might arise in the future. Chairman Blumenthal stated the audit committee and the board were obligated to members to operate efficiently and keep budget expenses from expanding.

Mr. Johnson noted the Audit Committee recommended a reduced number of audits in 2011 and the board approved the committee's recommendation. Mr. Hesalroad stated that the internal auditor was available and could be authorized to perform additional audits on as-needed basis. Mr. Slack noted Mr. O'Brien's proposed list of additional audits was to inform the audit committee regarding the cost of more comprehensive audit services and the benefit that might be derived if these services were funded.

Chairman Blumenthal noted the organization has alternative "auditing" methods that would identify functional weaknesses, other than the internal and independent auditors. He named FPPA internal staff, Hamilton Lane, Pension Consulting Alliance (PCA), FPPA's Investment Review Committee (IRC) who review investment values. Chairman Blumenthal stated that financial securities have custodial monitoring by SAS 70's at Fidelity and Bank of New York Mellon. Mr. Slack noted that these groups do not conduct as meaningful a review of controls as an auditor would do. He subsequently stated that the independent auditor reviews the organization "after the fact," while the internal auditor identifies inefficiencies in controls or processes immediately, allowing management to address and implement changes quickly.

Chairman Blumenthal noted that the audit charter was to be reviewed annually for the first three years regarding "the adequacy and effectiveness of FPPA's system of internal controls, and the accounting and financial reporting systems of FPPA" to determine if there is something wrong with the charter or something wrong with the direction of the audit committee. It was the consensus of the audit committee to not change the audit plan as approved by the board. Chairman Blumenthal recommended that review of the charter be placed as an agenda item for the next audit committee meeting.

Evaluation of Independent Auditor Clifton Gunderson LLP

Mr. Slack provided a memo regarding the annual evaluation of FPPA's independent audit services provided by Clifton Gunderson LLP (CG). He also provided a copy of the evaluation form that included an evaluation section completed by staff. Mr. Slack and the audit committee orally completed the evaluation form. Mr. Slack stated that a copy of the final evaluation form with audit committee comments will be sent to Clifton Gunderson LLP. Chairman Blumenthal requested that a separate page be included with the evaluation form which stated that the audit committee and management had reviewed the independent auditors' performance and met with them in executive session. The Audit Committee recommended Clifton Gunderson LLP for retention. Mr. Slack confirmed with the Audit Committee that the April 28, 2011, board meeting agenda would include an Audit Committee report delivered by the audit chairman. Clifton Gunderson LLP would make their report to the board and, subsequently, the Audit Committee would make a motion to accept the 2010 Audit Report.

At 10:50 a.m., Mr. Johnson moved to adjourn the audit committee meeting. Mr. Hesalroad seconded the motion. MOTION CARRIED IN FAVOR UNANIMOUSLY.