

FIRE AND POLICE PENSION ASSOCIATION

Minutes – Audit Committee Meeting

October 28, 2011

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

Committee Members Present: Chairman Jack Blumenthal, Lyle Hesalroad.

Committee Members Absent: Tim Nash (newly appointed/excused).

Staff Members Present: Dan Slack, Kim Collins, Janette Hester and Melanie Winters and Bob Billings (12:58 pm).

Staff Members Not Present: Kevin Lindahl (excused).

Others Present: Tim O'Brien, FPPA Internal Auditor; Bill Petri and Steve Shanks, 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 12:18 p.m., Audit Committee Chair Jack Blumenthal called the meeting to order. Chair Blumenthal called for approval of the minutes.

Lyle Hesalroad moved to approve the minutes of the April 18, 2011, audit committee meeting as submitted. Chair Blumenthal seconded the motion. The motion carried.

Lyle Hesalroad moved to approve the executive session minutes of the April 18, 2011, audit committee meeting. Chair Blumenthal seconded the motion. The motion carried.

Review of Audit Committee Charter

Chair Blumenthal reported that Tim Nash had been appointed by Board Chair Kirk Miller at the October 27th board meeting to serve on the audit committee in place of Leo Johnson, who is no longer a board member. Mr. Nash was excused from the audit committee meeting.

Chair Blumenthal noted that a copy of the charter for the Audit Committee was in the packet and asked if there were any changes to be considered to the document. Dan Slack reported the charter currently states that the audit committee will report its activities to the board through minutes, special presentations and an annual summary presentation. Mr. Slack noted that an annual summary presentation was

made to the board at the April 2011 board meeting. He further stated there were two items in the charter pending completion by staff:

- (1) Adopt a procedure for the receipt, retention and treatment of complaints regarding accounting, internal controls or auditing matters, which must include a means for employees to submit confidential, anonymous complaints regarding questionable accounting or auditing matters.

Chair Blumenthal directed Mr. Slack to annually prepare and distribute a memo to staff explaining the open communication policy and to encourage staff members to comment anonymously and/or contact the audit committee or auditors with any matter of concern. The memo should include the telephone number and email for FPPA's internal auditor and for FPPA's external independent auditor. Chair Blumenthal requested that evidence of compliance with this procedure be presented to the audit committee at its next meeting.

- (2) The chief executive officer's annual written performance evaluation of FPPA's internal auditor will be reviewed by the audit committee.

Chair Blumenthal directed Mr. Slack to complete an annual review of the internal auditor and present a written copy for review by the audit committee.

Tim O'Brien and Bill Petri reported they had reviewed the Audit Committee Charter and had no further recommendations or changes to make.

2012 Internal Audit Plan

Chair Blumenthal noted that the ultimate budgetary decision regarding scope of audits planned for 2012 would be made by the board through the budget process. He stated the audit committee should review the proposed internal audit plan for 2012 and make recommendations to the board.

The plan proposes to conduct two benefits-related audits and to conduct an annual audit of payroll and operating expenditures. In addition, the plan proposes a fourth audit on investment accounting and controls. The cost to conduct four audits would be approximately \$33,000. Chair Blumenthal stated the committee has the option to change the rank order of importance of the internal audits. Mr. O'Brien reported that the fourth audit (investment accounting and controls) would not likely occur until late in 2012.

Mr. Slack discussed his memorandum regarding the internal audit plan. He noted the fourth audit of investment accounting and controls was included because of the move to more internal management of the FPPA investment program and the increase in investment staff. Mr. Slack stated that an internal audit of investment

accounting and controls will help identify any gaps or deficiencies in risk management, processes and controls.

Chair Blumenthal stated there are two important issues:

- (1) The nature of investments has changed and is more privatized.
- (2) The framework for the internal audit of investment accounting and controls needs to be set up carefully in advance.

Investment staff will determine the design of investment controls. Mr. O'Brien will establish a timely plan to test investment transactions and controls as appropriate. Chair Blumenthal suggested that a detailed Standard Operating Procedure (SOP) manual for investment accounting could help manage what the auditors need to review. Chair Blumenthal requested an update at the next audit committee meeting.

Mr. O'Brien stated that the remaining three proposed internal audits were important and should not be removed from the audit plan. Those audits include: unclaimed member accounts and unclaimed benefits; member enrollment & member data changes; and non-retiree payroll expenditures (FPPA operating and payroll). Chair Blumenthal stated that the increased number of internal audits and the associated management costs can be justified by the significant annual savings created by bringing investments in-house. Audits and internal management are part of the transitional costs. Mr. Slack noted that in future audit years priorities for proposed audits may change. It was the consensus of the audit committee to approve the proposed 2012 internal audit plan. The meeting recessed for break and additional staff joined the meeting.

Clifton Gunderson Presentation

Kim Collins introduced two members of her staff, Melanie Winters and Bob Billings, whom she had invited to participate in the audit presentation by Clifton Gunderson. Mr. Petri reviewed the list of task requirements and deliverables; the required SAS No. 114 communications with those charged with governance; risk assessment procedures; preliminary analytical analysis; planning materiality; and significant processes and audit committee influence; and GASB exposure drafts. Steve Shanks reviewed the changes to the 2011 audit process, due to the investment staff activities in 2011; consideration of fraud; and fraud interviews. Mr. Petri reported the interim audit process would begin the next week and they would complete the procedure in February and March. He stated that a draft management letter would be ready at the end of March. Final presentation of the independent audit will be made at the April 26th board meeting. Ms. Collins

suggested Clifton Gunderson present their draft management letter to the audit committee the week prior to the April board meeting. Mr. Petri and Mr. Shanks answered questions from the committee and staff.

Mr. Shanks reported there were two draft exposures that would directly affect financial reporting for pension plans and notes to financial statements. He explained the notes regarding investments will disclose both time-weighted and money-weighted rates of return on plan investments, with 10 fiscal years of historical supplementary data required to precisely complete the calculation. He noted this will have more of an effect on the 2012 audit than the 2011 audit. Mr. Shanks reported that GASB is currently deliberating on the draft and considering the commentary. The pending changes could be approved by 2Q 2012 and hit FPPA's 2014 audit.

Chair Blumenthal requested clarification on "the basis for selecting the long-term expected rate of return on plan investments" and how the disclosure of the basis used for selection by the actuary might affect fiduciary responsibility. Mr. Shanks reported that GABS wants fiduciaries to take ownership of the rate of return selected. Mr. Slack stated that this could possibly affect valuations of old hire plans, but probably not the statewide defined benefit plan.

Mr. Shanks reviewed the impact on the financial reports of employers participating in FPPA and how employers will determine their net pension liability in the statewide plan. He noted that the actuaries would be providing this percentage to employers. Chair Blumenthal expressed concern the Municipal Securities Rulemaking Board might require municipal advisors, as directed by the Dodd-Frank Act, to enforce risk-based compliance examinations. Mr. Petri stated that this is one of the questions being considered on the exposure draft. Mr. Petri stated that he and Mr. Shanks will keep the FPPA board informed on this issue.

Mr. Petri and Mr. Shanks answered questions from the committee and concluded their presentation. The audit committee meeting adjourned at 1:43 p.m.