

**FIRE AND POLICE PENSION ASSOCIATION**  
**Audit Committee Meeting**  
**April 19, 2012**  
**Agenda**

<u>Time</u>	<u>Agenda item</u>
7:00 a.m.	<b>Call to order</b> <i>Jack Blumenthal, Chair</i>
	<b>Approval of Minutes of October 28, 2011, audit committee meeting</b>
7:05 a.m.	<b>Financial statement report</b> <i>Bill Petri and Steve Shanks, CliftonLarsonAllen</i>
7:55 a.m.	<b>Management Letter report</b> <i>Bill Petri and Steve Shanks, CliftonLarsonAllen</i>
8:25 a.m.	<b>Evaluation of CliftonLarsonAllen LLP</b>
8:40 a.m.	<b>Break</b>
9:00 a.m.	<b>2012 internal audit reports</b> <i>Tim O'Brien, Internal Auditor</i> <ol style="list-style-type: none"><li>1. Internal Audit of Retirement Benefit Calculations for the Statewide Defined Benefit Plan, the Colorado Springs New Hire Pension Plan, and the Statewide Hybrid Plan, Audit 2011-02</li><li>2. Internal Audit of Payroll and Operating Expenditures, Audit 2011-03</li></ol>
9:30 a.m.	<b>Evaluation of Internal Auditor</b>
9:45 a.m.	<b>Adjourn</b>

## **FIRE AND POLICE PENSION ASSOCIATION**

Minutes – Audit Committee Meeting

April 19, 2012

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

Committee Members Present: Chairman Jack Blumenthal, Lyle Hesalroad and Tim Nash.

Staff Members Present: Dan Slack, Kim Collins, Scott Simon, Kevin Lindahl, Jeff Kaszubowski, Curt Huntsman, Bob Billings, Melanie Winters, Janette Hester and Jacqueline Tara

Others Present: Tim O'Brien, FPPA Internal Auditor; Bill Petri and Steve Shanks, (CliftonLarsonAllen)

*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 7:00 a.m., Chair Blumenthal called the meeting to order.

Mr. Slack introduced the non-executive staff members: Curt Huntsman, Investments; Bob Billings, Accounting Manager; and Melanie Winters, Accounting Manager. Ms. Collins explained that the Accounting Manager positions were expanded due to the amount of work being processed. Ms. Winters handles the outflows, paid retiree payroll, and accounts payable. Mr. Billings handles receivables and contributions and works with Mr. Huntsman on Investment posting. Both are responsible for providing more internal controls in that specific area by overseeing each other and both report to Ms. Collins.

Chair Blumenthal called for approval of the minutes from the October 28, 2011, meeting. Mr. O'Brien brought to the Committee's attention a conflict in the minutes, stating that he cannot both work with staff to determine the design of investment controls and establish testing of investment transactions throughout the year. Mr. Blumenthal and Mr. Slack agreed that the minutes need to be reworded so that it is clear that Mr. O'Brien is not designing the controls that he is also auditing. With no objections, the agreement was to continue the meeting and address amending the minutes at the break, allowing for approval of amended minutes when reconvened.

Mr. Slack noted completion of staff education on an "open communication policy" with the members of the audit committee, the internal auditor, and the external auditor concerning fraud, improprieties or other.

## Audit Report

Mr. Petri and Mr. Shanks (CliftonLarsonAllen, "CLA") discussed the December 31, 2011 Audit.

### Procedures and Results:

- Risk Assessment and Fraud Procedures
  - ✓ CLA obtained an understanding of the control processes and determined that the controls were properly designed and implemented as designed.
  - ✓ Testing of the effectiveness of the controls surrounding the benefit payment process for the Fire & Police Members' Benefit Investment Fund found to be effective.
  - ✓ Completed procedures within the general ledger and other areas to address the consideration of fraud and noted no indications.
- Preliminary Analytics
  - ✓ During the course of preliminary analytics CLA noted no unexplained variances or unusual activity so there were no changes to the planned scope of their testing.
- Significant Process and Audit Areas
  - ✓ Testing included confirmation procedures, fair value, investment earnings, compliance to the investment policy, contributions and distribution processing, and others.
- Review of testing
  - ✓ Total balances of investments held and transactions agreed to reported balances by FPPA and were deemed complete, transactions were reported on a trade basis, no anomalies noted in the responses. Of the various investments selected for confirmation 90% positive confirmations were received, remaining were non-response. For all Contributions/Member Testing and Distributions there were no exceptions or material variances noted. Surrounding the Financial Statement Process all information was agreed to audited financial data.

Chair Blumenthal shared concern with not having adequate responses from firms regarding the value of assets. Mr. Petri and Mr. Simon elaborated that it is more of a timing issue. Chair Blumenthal requested that staff put a process in place assuring the Audit Committee receives a confirmation report with everyone's information in June that will assure the Audit Committee that the data was ultimately received. Mr. Simon has a report that he will provide to the Committee. Chair Blumenthal suggested that the information also be made available to the external auditors. Mr. Hesalroad agreed with that suggestion.

- *Audit Procedures and Results*
- *Auditor's Reports, Financial Statements and Notes*

- ✓ Internal Audit report was clean
- *Report on Internal Control and Compliance*
  - ✓ Clean report, no findings
- *Management Letter*
  - ✓ One unexpected variance was found. After inquiring with FPPA investment staff, it was determined that the variance was due to a misclassification of the year end fair value adjustment for private fund investments. Management responded positively to this report and CLA is confident this issue would have been caught by staff as well.
  - ✓ Recommendation to FPPA is to develop controls that ensure information received from third party is properly accounted for in the financial reports.
- *SAS 114 Report*
  - ✓ There were no findings. There were no significant changes in policies, no opinion shopping, no transactions in other periods as financial statements are consistent from year to year.
  - ✓ There are two significant areas of estimates. First, the determination of the market value of investments in private equity funds. These are estimated by adjusting with the most recent market values reported from known cash flows, such as capital costs and distribution of management fees. This adjustment was made by FPPA in consultation with a third party investment consultant. Second, actuarial liabilities are estimated based on a third party actuarial valuation.

#### *Financial Statement Disclosures*

- ✓ The actuarial financial statement disclosure is located in two places. The actuarial information is included in note 3 to the Financial Statement and there's also supplemental information on the funding progress as presented as required supplemental information. CLA believes that actuarial information is a particularly sensitive financial statement disclosure.
- ✓ There were no difficulties engaged in performing the audit. To the contrary. CLA greatly appreciated the assistance from Mr. Slack, Ms. Collins and staff.

#### *Adjustment*

- ✓ \$21.7 million reclassified from cash into the Real Assets, Private Capital, and Opportunistic categories.

### Financial Statements

CLA reviewed the Financial Statements. An increase of plan net assets of \$26.3 million during the current year as compared to \$402 million for the prior year is consistent with the market being flat.

Net Investment Gain by Plan is \$23.8 million, the Members' Benefit Investment Fund experienced positive performance for the year. The Global stock indices were down approximately 7%, along with the U.S. bond indices being up approximately 8% as compared to the prior year.

Benefit Investment Fund has total additions of \$206 million as compared to \$511 million in the prior year, most significant difference there is Investment income/loss.

No significant new notes or big changes in the notes. Overall, with a flat year and the change in the added plans (Aurora) which impacted the Self-Directed Plan there was no significant growth in the assets.

At 8:07 a.m., Chair Blumenthal called for staff to leave the meeting in order to hold a confidential discussion with only the auditors, the Audit Committee, Janette Hester and Jacquette Tara present.

Mr. Slack, Ms. Collins, Mr. Simon, Mr. Lindahl, Mr. Kaszubowski, Mr. Billings, Ms. Winters, and Mr. Huntsman left the meeting.

The audit committee discussed with the auditors whether the management of FPPA had provided full cooperation with the auditing firm and whether there had been any resistance on the part of staff to the auditing process. The auditors reported to the audit committee that the staff had fully cooperated with the audit process and they had no concerns with cooperation by management. Also noted was the found variance which was quickly corrected by the staff. In addition, the auditors were queried by the audit committee as to the management structure and whether FPPA's current organization provides enough controls needed in the internal organization. The auditors agreed that the recent addition of staff in both accounting and investments has enhanced the controls and made the organization stronger.

At 8:15 a.m., Mr. Petri and Mr. Shanks left the meeting and Mr. Slack, Ms. Collins, Mr. Simon, Mr. Lindahl rejoined the meeting.

Chair Blumenthal shared with staff that the auditors were very complimentary with respect to everything that they found. The auditors were asked if they felt the structure of our financial management team was adequate for FPPA. The auditors acknowledged they believed what FPPA currently has in place is adequate.

### Evaluation of CliftonLarsonAllen

Mr. Slack and Ms. Collins directed the Audit Committee to the Auditor evaluation

form.

In response to questions 1 through 4:

Chair Blumenthal, Mr. Hesalroad and Mr. Nash answered "yes" to all.

In response to questions 5 through 10:

Chair Blumenthal, Mr. Hesalroad and Mr. Nash answered "yes" to 5, 8 and 9 and "No" to 6, 7 and 10

In response to questions 11-13:

Chair Blumenthal, Mr. Hesalroad and Mr. Nash answered "yes" to all.

At 8:35 a.m., Chair Blumenthal called for a 10 minute break.

At 8:45 a.m., the meeting reconvened.

Mr. Slack and Mr. O'Brien offered suggested language to revise the October 28, 2011, minutes:

*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.*

Minutes were approved as amended. It was agreed to have the approved amended minutes prepared as a handout at the April 26 Board meeting.

#### Internal Audit Reports

Mr. O'Brien discussed the Internal Audit of Retirement Benefit Calculations and Internal Audit of Payroll & Operating Expenditures.

#### Benefits Calculations

Based on the test work performed and the audit findings noted, he concluded that FPPA accurately calculates retirement benefit for the Statewide Defined Benefit Plan, Colorado Springs New Hire Pension Plan and the Statewide Hybrid Plan. There were five prior audit recommendations, all of which have been implemented and are in place.

#### Payroll & Operating Expenditures

Based on the test work performed and the audit findings, he concluded that FPPA accurately processes its staff payroll and operating expenditures and accomplishes the objectives stated above. There were seven findings and recommendations. Chair Blumenthal requested Ms. Collins to prepare a memo for the next Audit Committee meeting stating how each finding will be addressed and managed going forward.

There were two prior audit recommendations, both which have been implemented.

Mr. Nash moved to accept both Internal Audit Reports. Mr. Hesalroad seconded the motion. The motion passed.

At 9:30 a.m., Chair Blumenthal excused Mr. O'Brien while staff discussed the evaluation of the internal audit function. Chair Blumenthal's suggested an edit to the response to question 2, deleting its second sentence.

At 9:40 a.m., Mr. O'Brien rejoined the meeting. Chair Blumenthal shared the edit to the answer to question 2, and expressed that FPPA agrees the relationship with him as internal auditor is positive.

At 9:45 a.m., Mr. Hesalroad motioned to adjourn the meeting. Mr. Nash seconded the motion. The meeting adjourned.