

FIRE AND POLICE PENSION ASSOCIATION
Audit Committee Meeting
April 22, 2013
Agenda

<u>Time</u>	<u>Agenda item</u>
7:00 a.m.	Call to order <i>Jack Blumenthal, Chair</i>
	Approval of Minutes of October 31, 2012, Audit Committee meeting
7:05 a.m.	Independent Auditor's presentation <i>Bill Petri, Steve Shanks and Michelle Alexander CliftonLarsonAllen</i> <ol style="list-style-type: none">1. Financial statement report2. Management letter report3. PCAOB audit update4. GASB 67/68 update5. Audit Committee discussion with Independent Auditor
8:20 a.m.	Evaluation of CliftonLarsonAllen LLP
8:35 a.m.	Internal audit report <i>Tim O'Brien, Internal Auditor</i> <ol style="list-style-type: none">1. Internal Audit of Payroll and Operating Expenditures, Audit 2012-032. Update on investment operations database3. Audit Committee discussion with Internal Auditor
9:15 a.m.	Evaluation of Internal Auditor
9:30 a.m.	Adjourn

FIRE AND POLICE PENSION ASSOCIATION

Minutes – Audit Committee Meeting

April 22, 2013

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

Committee Members Present: Chairman Jack Blumenthal, Lyle Hesalroad and Pam Feely.

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

Others Present: Tim O'Brien, FPPA Internal Auditor; Bill Petri, Steve Shanks, Michelle Alexander (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.

Chair Blumenthal called for approval of the minutes from the October 31, 2012, meeting.

Ms. Feely moved to approve the minutes from the October 31, 2012, meeting. Mr. Hesalroad seconded the motion. The motion passed.

Audit Report

Mr. Petri (CliftonLarsonAllen, "CLA") discussed the December 31, 2012 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.
 - ✓ Evaluated the revenue recognition policies.
 - ✓ Interviewed personnel on FPPA's staff and others charged with

- governance.
- Preliminary Analytics
 - ✓ Reviewed all minutes of the Board of Trustees and sub-committees. Held discussions with the audit committee and management of the fund and compared current year balances and activity to prior year balances and activity. 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.

Financial Statements

CLA reviewed the Financial Statements. Overall net position for all plans administered by FPPA increased \$320.6 million during the calendar year 2012, mirroring the positive performance of the 2012 markets.

Net Investment Gain for all funds including the self-directed fund for 2012 was \$23.8 million. For the year ended December 31, 2012, the gross rate of return on the Fire & Police Members' Benefit Investment Fund was 12.32% (11.92%, net of fees), as compared to 1.23% (0.73%, net of fees) for 2011. The Global stock indices were up approximately 16%, along with the global bond indices +4%, as compared to 2011 when stock indices were down 7% and bond indices were up 5%.

Mr. Petri focused discussion on the funded status, progress and ratios by plan. Mr. Slack and Ms. Collins noted that when the recent legislation becomes effective and the approximately \$143 million in state funds are received there should be a significant impact to the six old hire state-assisted plans and their funded ratios.

SAS 114 Report

There were no significant findings to report. There were no significant changes in policies, no opinion shopping, no transactions in other periods as financial statements are consistent from year to year.

Internal Control Over Financial Reporting

A deficiency in internal controls was discovered in the unfunded capital amounts between the capital commitment listing prepared by the third party provider and the capital account statements issued by the funds. The recommendation is that FPPA reconcile the unfunded capital commitments provided by the third party provider on a more frequent basis. Staff has reviewed and acknowledged the findings and has implemented a quarterly reconciliation process.

CLA recommends that FPPA consider establishing a time for the Audit Committee to meet privately with the internal auditor on an annual basis at minimum.

Ms. Feely agreed to give a verbal report of today's Audit meeting to the Board.

GASB 67 and 68

Kim Collins updated the committee on the status of the Government Accounting Standards Board (GASB) Statements No. 67, Financial Reporting for Pension Plans, and No. 68, Accounting and Financial Reporting for Pensions, and FPPA's implementation currently underway:

- Staff has attended multiple educational meetings and has identified items that need to be addressed to accomplish the implementation of the new reporting requirements.
- Staff is working on designing a survey that will be sent out this year to collect contact information from each employer.
- Gabriel, Roeder Smith & Company is assisting FPPA on the reporting requirements for the actuarial studies.
- Additional information will be available on the employer website with general information offered this year and more specifics with examples in 2014.
- Determine the impact of staff time needed to complete the reporting requirements.
- The costly implementation of SOC 1 (type 2) reporting is an issue that staff is aware of and continues to research.
- Staff is working to determine how to incorporate the Colorado PERA retirement plan unfunded liability into FPPA's financials.

Chair Blumenthal requested Ms. Collins inform the FPPA Audit Committee regarding the potential financial impact of the new requirements.

At 8:06 a.m., Chair Blumenthal excused FPPA staff and Mr. O'Brien from the meeting. Ms. Winters, Mr. Billings, Mr. Huntsman and Mr. Kaszubowski 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. In addition, the auditors were queried by the audit committee as to the management structure and whether FPPA's current organization provides sufficient controls needed in the organization. The auditors agreed that both the accounting and investment departments have excellent controls and it is a strong organization.

At 8:23 a.m., FPPA staff and Mr. O'Brien re-entered the meeting. Mr. Petri, Mr. Shanks and Ms. Alexander were excused from 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.

At 8:27 a.m., Mr. Petri, Mr. Shanks and Ms. Alexander re-entered the meeting.

Chair Blumenthal shared compliments from staff to CLA.

Chair Blumenthal suggested enhancing the evaluation of the auditors to include two recommendation forms, one completed by staff and another blank form for completion by the Audit Committee. Mr. Hesalroad and Ms. Feely agreed with the FPPA internal evaluation form recommendations regarding CLA for 2013.

Mr. Shanks agreed to attend the April 25th Board meeting to present a brief update on the unmodified Audit report.

Ms. Feely moved to accept the Audit report as presented by CliftonLarsonAllen. Mr. Hesalroad seconded the motion. The report was accepted.

Internal Audit Reports

Mr. O'Brien discussed the Internal Audit of Payroll and Operating Expenditures of FPPA for 1/1/2012-12/31/2012.

Response to Recommendation No. 1: FPPA will establish, maintain, and enforce written policies designed to prevent the misuse of material and nonpublic information that staff may be exposed to and address code of ethics in the FPPA Code of Ethics and Standards of Professional Conduct manual. Mr. Simon will prepare an annual compliance checklist and have Mr. O'Brien review it before presenting to the Board at the June meeting.

Response to Recommendation No. 2: Management will review and update the Potential Conflict of Interest Disclosure policy and assure that all employees complete the annual conflict of interest form.

Response to Recommendation No. 3: Staff is waiting until the legislature creates implementing legislation for Amendment 64 before revising its pre-employment

screen for illegal drugs.

Although currently in use, the Code Red system is not fully implemented and therefore not ready to be audited. Mr. Simon will assign one main implementer and a target date of September 1, 2013. All auditors agreed the September date would not create a negative impact on the audit for the year 2013.

At 9:09 a.m., Chair Blumenthal excused FPPA staff from the meeting. Mr. Petri, Mr. Shanks and Ms. Alexander left the meeting.

At 9:18 a.m., FPPA staff reentered the meeting.

Chair Blumenthal shared with staff that Mr. O'Brien reported positive follow up on recommendations and that Ms. Collins has been proactive in taking the lead on implementing the GASB 67 and 68 procedures. Mr. O'Brien reported a positive relationship with staff and appreciation of his assignment at FPPA.

Ms. Feely will report to the Board that the Audit Committee held an annual meeting with both the internal and external auditors privately with respect to their findings and all reports were without exceptions and well satisfied with the tone of the FPPA and staff.

CAFR

The CAFR report is due before June 30th to GFOA. Ms. Collins agreed to have a draft of the CAFR report available for the Audit Committee by June 4th with a review meeting scheduled for June 10th at 8:00 a.m.

At 9:25 a.m., Mr. Hesalroad moved to adjourn the meeting. Ms. Feely seconded the motion. The meeting adjourned.