

# **FIRE and POLICE PENSION ASSOCIATION**

## Audit Committee Meeting

June 6, 2014

- 7:30 a.m.     **Call to order**  
*Jack Blumenthal, Chair*
- Approval of Minutes of October 25, 2013, Audit Committee meeting**
- 7:35 a.m.     **Independent Auditor's presentation**  
*Bill Petri, Steve Shanks, and Michelle Alexander - CliftonLarsonAllen LLP*
1. Financial Statement report
  2. Management/Governance letter report
  3. Peer Review report
  4. Audit Committee discussion with Independent Auditor
- 8:35 a.m.     **Review of December 31, 2013 Comprehensive Annual Financial Report**  
*Kim Collins*
- 8:55 a.m.     **Determine June 13, 2014 Board Presentation on Audit/CAFR**
- 9:00 a.m.     **SSAE 16 SOC 1 Readiness Update**  
*Kevin Sear, Paragon Audit & Consulting, Inc.*
- 9:20 a.m.     **SSAE 16 SOC 1 Auditor presentation**  
*Bob Halpin, CliftonLarsonAllen LLP*
- 9:35 a.m.     **GASB 68 Implementation Costs**  
*Dan Slack, Kevin Lindahl, Kim Collins, Kevin Sear*
- 10:05 a.m.    **Update on Code Red**  
*Scott Simon*
- 10:15 a.m.    **Internal audit report**  
*Tim O'Brien, Internal Auditor*
1. Internal Audit of Member/Employer Contributions, Member Retirements, Refunds to Members, Disability Retirements, Member Enrollments, and Changes to Member Data, audit 2013-01
  2. Internal Audit of Payroll and Operating Expenditures, audit 2013-02
  3. Audit Committee discussion with Internal Auditor
- 11:00 a.m.    **Evaluation of Internal Auditor**
- 11:15 a.m.    **Evaluation of CliftonLarsonAllen LLP**
- 11:30 a.m.    **Adjourn**

## **FIRE AND POLICE PENSION ASSOCIATION**

Minutes – Audit Committee Meeting

June 6, 2014

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

Committee Members Present: Chair Jack Blumenthal, Pam Feely, and Nick Nuanes

Staff Members Present: Dan Slack, Kim Collins, Kevin Lindahl, Jacquette Tara, Ahni Smith, Melanie Winters, and Curt Huntsman

Others Present: Tim O'Brien, FPPA Internal Auditor; Kevin Sear, Paragon Audit & Consulting, Inc.; Bill Petri, Steve Shanks, Michelle Alexander, and Bob Halpin (via teleconference), 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 7:30 a.m., Chair Blumenthal called the meeting to order.

Chair Blumenthal called for approval of the minutes from the October 25, 2013, meeting. Ms. Feely moved for approval of the minutes. Chair Blumenthal concurred. The motion was approved with Nick Nuanes abstaining.

Ms. Collins introduced the non-executive staff members and other attendees to the Audit Committee.

Chair Blumenthal applauded the accounting staff's excellent work which resulted in no management letter comments from the auditors this year.

### **Audit Report**

#### Independent Auditor's Reports

Misters Petri and Shanks and Ms. Alexander from CliftonLarsonAllen (CLA), presented its audit of FPPA's December 31, 2013, Financial Statements, highlighting audit procedures and results, changes to accounting standards and procedures, and the required SAS No. 114 communications. CLA's audit included the testing and confirmation of:

- o 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.

- ✓ Reviewed the newly implemented process to capture and report investment management fees.
- ✓ Completed procedures to address the consideration of fraud and noted no indications of fraud.
- Preliminary Analytics
  - ✓ No unexplained variances or unusual activity was noted so there were no changes to the planned scope of CLA's testing.
- Significant Processes and Audit Areas
  - ✓ The following areas and processes were reviewed and tested by CLA:
    - Investment and Investment Income (Loss)
    - Contributions and Members
    - Distributions
    - Financial Statement Process

Mr. Shanks offered further details on Fair Value testing: CLA receives either the audited financial statements or 4<sup>th</sup> quarter statements for those investments not regularly traded. The audit language is reviewed for verification that the fund is being valued correctly for an actual fair value to be determined.

CLA's audit resulted in a clean Management Letter. A clean SAS 114 letter (issued to those charged with governance) was also reported. CLA will be issuing an unmodified, clean report, on both the Financial Statement and the Internal Control Report.

The Audit Committee requested that FPPA receive a copy of the PCAOB's (Public Company Accounting Oversight Board) report on CLA for Mr. Slack to review and follow up to the committee.

Ms. Collins highlighted FPPA's quality control process in that FPPA's two accounting managers pull the financial statements together, providing all the background data to CLA. CLA in turn, reviews, checks, and confirms the numbers in the financial section.

#### Comprehensive Annual Financial Report (CAFR)

Ms. Collins reviewed the CAFR report, including the modifications to be made to the report before completion by June 30th.

Concerned with potential misinterpretation of FPPA's CAFR, Chair Blumenthal suggested that staff focus on communicating an overview on the Plans with more layman terms. Mr. Slack agreed to add a brief paragraph to the Letter of Transmittal within the CAFR depicting the responsibilities of FPPA in administering the Plans.

The Audit Committee recognized that FPPA has successfully received the Government Finance Officers Association (GFOA) award since providing the annual report since the mid-1980's.

### Board presentation

The Audit Committee will discuss today's review at the next Board meeting and confirm that the Board of Directors agrees to continue the governance delegation of the CAFR and audit to the Audit Committee.

At 8:45 a.m., Chair Blumenthal called for a break.

At 9:00 a.m., the meeting reconvened.

### SSAE 16 SOC 1 Readiness Update

Mr. Sear, with Paragon Audit & Consulting, Inc., discussed the new SOC 1 (type 2) reporting recommendation as outlined by the American Institute of Certified Public Accountants (AICPA). The report will provide assurance to FPPA's affiliated plans on the controls and procedures completed in the accounting of the plan's assets. FPPA has two types of Agent Multiple-Employer Pension plans that fall under the new audit requirements (Old Hire Plans and the Volunteer Fire Plans). By having a SOC 1 report prepared, these plans will be able to rely upon the data provided by FPPA that they need in order to comply with the Government Accounting Standards Board (GASB) Statement No. 68.

In order to determine what controls were needed to meet the control objectives, Paragon performed a readiness exercise of FPPA's accounting, payroll, investment and IT processes and then identified the Key Controls. Limited testing was then performed for each Key Control. Through this testing, Paragon identified various processes in need of minor control improvement, such as better accounting documentation, an improved IT issue tracking system and better policies, and the accuracy of reporting of gross investment manager, performance fees and year-end investment earnings accrual process. No major changes were identified during the process.

Paragon will have the final testing and System Description (language that will be used in the SOC 1 report to describe the controls) in place by July 1<sup>st</sup>, the beginning of FPPA's SOC 1 reporting period (going forward it will cover a full calendar year).

### SSAE 16 SOC 1 Type 2 Audit Plan

At 9:20 a.m., Mr. Halpin, CLA, joined the meeting via teleconference. Mr. Halpin discussed the summary of objectives and topics for the July 1 – December 31, 2014, SSAE16 SOC 1 Type 2 Audit Plan for FPPA. Objectives are to obtain reasonable assurance based on suitable criteria throughout the audit period that FPPA's description of the system is fairly presented, that the controls related to the control objectives stated were suitably designed, and that the controls stated operated effectively. FPPA management is required to provide written assertion about the fairness of the presentation, suitability of design, and operating effectiveness of the controls. Management is also required to have a reasonable basis for its assertion.

During the testing period, should CLA identify any exceptions or observations they will be brought to FPPA's attention to confirm understanding of the facts and whether any recommendations are reasonable. Some instances may allow for management to remediate, others may more significantly impact a process. Found exceptions and areas for improvements may be remediated by management before end of year, providing the observation isn't systemic and in place during the audit period that impacts the auditors' opinion.

At 9:50 a.m., Mr. Halpin ended the call. Chair Blumenthal called for a break.  
At 10:05 a.m., the meeting reconvened.

### *GASB 67 & 68 Implementation Cost*

Mr. Sear, Paragon Audit & Consulting, Inc., began the discussion of the two accounting standards. The Governmental Accounting Standards Board (GASB) sets the *accounting standards* that define how governments need to report their financial results. The American Institute of Certified Public Accountants (AICPA) sets the generally accepted *auditing standards* for how CPA's can audit financial results. The biggest change implemented is under GASB 68 which now requires employers to report the net pension liability/asset on their financial statements. This means that FPPA financial data will have to be included in employers' audited financial statements.

AICPA has issued two white papers and three audit interpretations. There are different audit and reporting requirements for Agent Multiple-Employer plans and Cost-Sharing Multiple-Employer plans. Ms. Collins discussed the AICPA's identified problems and proposed solutions to providing employers with the data needed to satisfy GASB 68.

Mr. Lindahl explained the employer expense of the plan. FPPA's statute for the Old Hire Plans and the Volunteer Plans (Agent Multiple-Employer Pension Plans) states that FPPA is required to conduct an actuarial valuation of the plan. FPPA also has the authority, without any consent from the local pension plan board or the employer to conduct this valuation and to assess those costs and expenses to the plan assets. When the employer or local pension board decides that expense should be directly paid by the employer, it can then reimburse the plan for that expense.

Mr. Sears continued with discussing the Cost-Sharing Multiple-Employer Plans (Statewide Defined Benefit Plan, Statewide Hybrid Plan DB component, and the two Colorado Springs New Hire Plans). A separate stand-alone audit report needs to be generated for the employers.

Mr. Slack explained that while FPPA will be providing this information to the Cost-Sharing Multiple-Employer Plans, the employers have the responsibility and legal authority to determine their percentage of the totals provided. FPPA will provide less detail, as employers may chose different methods in calculation and this will

reduce the liability exposure for FPPA.

Ms. Collins discussed the possibility of the AICPA requiring FPPA's auditors to perform payroll audits of the employers to test data and underlying payroll records. Mr. Lindahl noted that FPPA does not have the statutory authority to audit the employer payroll systems. If there are mistakes in the employer's payroll and members aren't properly enrolled in the Plan, that will not create a liability for the plan because Colorado statutes state that if the employer fails to properly enroll a member, FPPA, and the Plan, and the funds are not liable for any benefits for which members were not properly enrolled..

Ms. Collins relayed her conversation with the State Auditor's Office indicating that they do not currently have the legal authority to require this payroll attestation from the employer's auditors. Should the State Auditor's Office proceed to seek legislation with this requirement, FPPA would be included in that data collection.

Ms. Collins continued with the estimated total audit and actuarial expenses. Mr. Slack noted the possibility of generating invoices to recover these expenses from the employers. As currently anticipated, the expense of recoupment of these costs would exceed the benefit of recoupment.

#### Update on Code Red

Mr. Slack began the discussion on Code Red, the Investment Department's database system for compliance. Staff has developed a workflow infrastructure within Code Red to house existing policies and procedures and is working toward a July 1, 2014, deadline (corresponding to the SOC 1 audit) to show compliance with the policies and procedures.

#### Internal Audit Reports

Mr. O'Brien discussed the matrix of the 2013-2014 Continuous Internal Audit Plan for FPPA and the objectives of the audits for Q1 – Q4.

Mr. O'Brien reviewed his findings on the Internal Audit of Member and Employer Contributions, Member Retirements, Refunds to Members, Disability Retirements, Member Enrollments, and Changes to Member Data. He recommended that the state income tax withholding form be revised to reflect the Colorado personal income tax rate. Staff agreed with this recommendation and is revising the form.

Mr. O'Brien reviewed his finding on the Internal Audit of Payroll and Operating Expenditures. He recommended that HR retain all documentation to support changes to staff payroll as well as to create a system to document policies and procedures regarding the creation and retention of personnel files. While Mr. O'Brien supports FPPA's plan to house the Human Resource files electronically within FPPA's system, he also cautioned to define the policies and procedures of storing and maintenance of those files. Ms. Collins added that FPPA's system is being evaluated from a security perspective.

Mr. O'Brien shared that FPPA is in total compliance with the reimbursement to employees through the use of the company credit card.

At 10:42 a.m., Chair Blumenthal excused staff from the room to meet privately with CLA, Paragon, and Tim O'Brien.

At 10:56 a.m., CLA left the meeting and staff joined the meeting.

Chair Blumenthal discussed the auditor's feedback. In general, the auditors felt that FPPA is doing an exemplary job. Chair Blumenthal would like to make clear the Board's responsibility to understand succession plans for key staff of the organization. When the Committee asked CLA for feedback on the financial management in house, they reported that the staff is solid and knowledgeable. They noted that Ms. Collins' understanding and education on GASB 67 & 68 has been exemplary. Ms. Winters is a solid performer and CLA had a good experience working with Ms. Smith. Mr. Huntsman was also commended for excellent performance. CLA also agreed with the Board's decision to omit the Investment Operations positions from the Investment incentive compensation program, from a control perspective.

Mr. Slack expressed that the CLA staff is very professional and they are open to hearing management discussion on issues and are very competent individuals. Ms. Collins added that many discussions this year surrounding the \$11.2 million in investment management fees were thorough and CLA provided options on how to address the issue and were a good resource.

#### External Auditor (CLA) contract review

Ms. Collins led the Committee through a complete review of the external auditors. Chair Blumenthal asked staff to expand the external auditor questionnaire to include the question: Was an audit performed by PCAOB? The Committee completed the review and noted their satisfaction with CLA's services.

#### Evaluation of Internal Auditor

Mr. Slack led the Audit Committee in the evaluation discussion of the internal auditor. The Audit Committee supported Mr. Slack's review and positive evaluation of the internal auditor.

At 11:27 a.m., Ms. Feely moved to adjourn the meeting. Mr. Nuanes seconded the motion. The meeting adjourned.