

FIRE and POLICE PENSION ASSOCIATION

Audit Committee Meeting
November 3, 2014

- 8:00 a.m. **Call to order**
Jack Blumenthal, Chair
- Approval of Minutes of June 6, 2014**
- 8:05 a.m. **Review Audit Committee charter**
Audit Committee Chair
- 8:15 a.m. **2014 internal audit plan**
Tim O'Brien, Internal Auditor
- 8:45 a.m. **Review of open audit findings**
Kim Collins
- 9:15 a.m. **Break**
- 9:25 a.m. **CliftonLarsonAllen presentation**
Bill Petri, Steve Shanks, and Michelle Alexander
- 10:10 a.m. **GASB 67/68 Implementation Update**
Kim Collins, Ahni Smith
- 10:40 a.m. **Private Equity Reporting**
Scott Simon, Kim Collins
- 11:10 a.m. **External Auditor and Internal Auditor contracts**
Dan Slack
- 11:30 a.m. **Adjourn**

FIRE AND POLICE PENSION ASSOCIATION

Minutes – Audit Committee Meeting

November 3, 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, Ahni Smith, Melanie Winters, and Jacquette Tara

Others Present: Tim O'Brien, FPPA Internal Auditor; Bill Petri, 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 8:08 a.m., Chair Blumenthal called the meeting to order.

Chair Blumenthal called for approval of the minutes from the June 6, 2014, meeting. Ms. Feely moved for approval of the minutes. Mr. Nuanes seconded the motion. The motion was approved.

Audit Committee Charter

Chair Blumenthal opened up the discussion for suggested changes to the Charter. The Committee had no suggested changes, but asked that the Charter be included in an upcoming board meeting packet.

To assure proper procedures are in place, the Committee requested staff to prepare a report for the next Audit meeting, reflecting the Verification of Eligibility (VOE) process within the Statewide Death & Disability Plan.

2014 Internal Audit Plan

Mr. O'Brien discussed the matrix of the 2014-2015 Continuous Internal Audit Plan for FPPA and the completion of the Q1-Q2 audits. There were no audit findings at this time. Mr. O'Brien will begin the audits on expenses, staff payroll, and the investment department's Code Red system in December.

Review of Open Audit Findings

Ms. Collins updated the Committee on the Open Audit Findings for internal and external matters as outlined in a memo included in the packet.

Chair Blumenthal requested FPPA's personal trading policy be reviewed to ensure its coverage meets the Security Exchange Commission's (SEC) definition of family members.

The Committee questioned how Amendment 64 (the legalization of recreational marijuana in Colorado) impacts FPPA's current policy. The policy is contained in FPPA's Staff Guidelines and Procedures. It prohibits the use of marijuana, as marijuana possession and use remains illegal under federal, even for medical purposes. There are cases pending in the Colorado state courts regarding this issue, and staff will monitor these developments and make sure our policy is consistent with the evolving law in this area.

Per the request of the Audit Committee, Ms. Collins will ask the IT security consultants to present their findings in person to both the Audit Committee and the Board.

At 9:11 a.m., Chair Blumenthal called for a break and Mr. O'Brien left the meeting. At 9:24 a.m., the meeting reconvened.

Audit Report

Independent Auditor's Reports

Mr. Petri and Mr. Shanks from CliftonLarsonAllen (CLA) presented the FPPA Financial Statement Audit Plan, highlighting changes to the plan, changes to accounting standards, procedures, and reporting, and the required SAS No. 114 communications.

The required Governmental Accounting Standards Board (GASB) 68 reporting will have a direct impact on FPPA's financial statements. As the report from PERA isn't expected until late 2015, Chair Blumenthal requested an estimation of unfunded liability from staff at the next Audit Committee meeting.

CLA will be finishing testing the SOC 1 Audit, looking at controls that affect Old Hire and Volunteer plans due to GASB 68 and the AICPA requirements. Chair Blumenthal requested that CLA continue communicating preliminary findings of the audit to management.

Mr. Blumenthal requested that CLA indicate to what extent internal audit is relied upon and also what FPPA could do to increase that.

Ms. Collins informed the Committee that an additional annual Audit meeting will be scheduled in March/April to review results of the SOC 1 Type 2 audit and to discuss this audit plan for 2015.

Mr. Slack informed the Committee that he had reviewed the PCAOB inspection report regarding CLA. There was one minor item regarding the adequacy of a sample size; otherwise the report was quite clean. Mr. Slack was satisfied with the report.

CLA reported that currently there is no major material litigation against their firm.

External Auditor and Internal Auditor contracts

Mr. Slack updated the Committee on the status of the external auditor and internal auditor contracts.

GASB 67 & 68 Implementation Cost

Ms. Collins and Ms. Smith updated the Audit Committee on the implementation of GASB Statement No. 67, Financial Reporting for Pension Plans, and Statement No. 68, Accounting and Financial Reporting for Pensions.

Staff has been working with Gabriel Roeder Smith (GRS) on the reporting requirements for the cost-sharing and agent multiple-employer pension plans. The reports will follow the samples provided within the GASB implementation guides and the American Institute of Certified Public Accounts (AICPA) white papers.

Sample reports were presented to the employers at the October 3, 2014 FPPA employer seminar and the information has been posted to FPPA's website.

Chair Blumenthal expressed concern over the fiduciary responsibilities regarding charging the employers for the costs of compliance with the GASB requirements. Mr. Slack updated the committee on proposed 2015 legislation to give FPPA authority to either invoice employers where appropriate or determine that the costs are de minimis and pay the costs from the plan.

Private Equity Reporting

Ms. Collins recapped Mr. Simon's memo in the packet on FPPA's process of fee reporting. Most private equity funds do not report, and therefore BNY Mellon does not track, profit sharing (i.e., carried interest). Post investment, FPPA has relied on audited financial statements as independent verification of the fees and expenses of its private equity funds.

FPPA will continue to press for transparency and the uniformity in the treatment of fees expenses prior to an investment in a fund. The Investment Staff is hopeful a new position of an Investment Analyst of Risk and Compliance will provide additional expertise and capacity in monitoring of these issues. FPPA can challenge BNY Mellon to require and track more information from our private equity funds. FPPA continues to participate in industry groups such as ILPA, NASIO, and CII, which are focused on this issue and working with the private equity industry to require more uniformity and transparency.

At 10:40 a.m., Mr. Nuanes moved to adjourn the meeting. Ms. Feely seconded the motion. The meeting adjourned.