

***Fire & Police Pension Association
Audit Committee Meeting Agenda***

May 12, 2020

7:30 a.m. Mountain Time

7:30 a.m. Call to Order. *Tammy Hitchens, Chair*

Approval of September 24, 2019 meeting minutes.

7:35 a.m. Auditor Reports.

Presenters: Sara Kurtz, Paul Kane, and Jim Schmidt, Eide Bailly, LLP

1. SSAE 18 SOC 1 Type II 2019 Audit.
2. Independent Auditor's presentation for the period ending December 31, 2019.
 - Financial Statement Audit.
 - Independent Auditor's report.
 - Governance report.
 - Independent Auditors' report on Internal Controls.
3. Update on GASB 68 audit.
4. Audit Committee discussion with Independent Auditor.

8:20 a.m. Review of December 31, 2019 Comprehensive Annual Financial Report (CAFR).

Presenters: Kim Collins, Ahni Smith, Scott Simon

8:45 a.m. Determine audit materials for Board meeting.

Presenter: Kim Collins

9:00 a.m. Break.

9:10 a.m. Internal Auditor Reports.

Presenter: Courtney Reikofski, BKD, LLP

1. Payroll Process and Investment Incentive Compensation Calculation Assessment.
2. Employee Expense Reimbursement and Concur Assessment.

9:40 a.m. Accounting Fraud Prevention Discussion.

Presenter: Ahni Smith

10:00 a.m. Audit Charter Review.

Presenter: Dan Slack

10:15 a.m. Evaluation of Eide Bailly, LLP.

Presenter: Kim Collins

10:30 a.m. Adjourn

Tentative Agenda for Audit Committee Meeting September 15, 2020 at 7:30 a.m.

- **IT Assessment (Executive Session).**
- **IT Internal testing review (Executive Session).**
- **Review of open audit findings (Executive Session).**
- **Annual review of open audit findings (Executive Session).**
- **Annual Private Markets financial statement review.**
- **Auditor Reports:**
 - **Governmental Accounting Standards Board (GASB) Statement No. 68 Report on the Statewide Defined Benefit Plan and Statewide Hybrid Plan – Defined Benefit Component.**
 - **Financial Statement, GASB 68, and SOC 1 Type 2 Audits Plans 12/31/2020.**
 - **GASB Pronouncements Update.**
- **Internal Auditor Reports:**
 - **Disaster Recovery Plan Assessment. (Executive Session)**
 - **Entity level controls review based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) model. (Executive Session)**
 - **Determine 2021 Internal Audit Plan.**
- **Determine 2021 Audit Committee Dates.**
- **Evaluation of BKD, LLP.**

***Please note this will be a virtual Zoom meeting. See Zoom information below:**

<https://fppaco.zoom.us/j/99780591385?pwd=dkhka2hDWIFjMmUxQzVRdm9CMG01UT09>

Meeting ID: 997 8059 1385

Password: 092192

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FIRE AND POLICE PENSION ASSOCIATION
Minutes – Audit Committee Meeting
May 12, 2020

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

*This meeting was held as a virtual Zoom meeting.

Committee Members Present: Chair Tammy Hitchens, Jason Mantas, Sue Morgan, and Karen Frame.

Staff Members Present: Dan Slack, Kim Collins, Kevin Lindahl, Scott Simon, Ahni Smith, Elaine Gorton, and Isabel Fernandez.

Others Present: Sara Kurtz, Paul Kane, Jim Schmidt, Eide Bailly, LLP; Courtney Reikofski, Sam Beck, Keith Galante, BKD, 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 7:30 a.m., Chair Hitchens called the meeting to order.

Ms. Morgan moved to approve the minutes of the September 24, 2019, meeting. Ms. Frame seconded the motion. The motion passed.

Auditor Reports

Mr. Schmidt provided a review of the Service Organization Control 1 Type 2 (SOC) report. Mr. Schmidt stated that the objective of the opinion is to obtain reasonable assurance of the assertion that throughout the year management's description of the system was fairly designed and implemented and that the controls were suitably designed to achieve the control's objectives. The results of the SOC were that it was a clean opinion. There were no exceptions identified, which is a very good result. There was also great communication during the process between Eide Bailly and the FPPA staff. From an operational controls standpoint, what FPPA is doing is viewed as a consistent environment.

In response to Mr. Schmidt's comments to the committee, Ms. Collins stated that the staff has been successful in committing and completing deadlines and paying retirees while following processes. A lot of paper processes have been changed to digital.

Ms. Kurtz reviewed the scope of the audit of the financial statements of FPPA for the year ending December 31, 2019. The audit was completed in accordance with auditing standards within the United States. Eide Bailly reviewed the investments and investment-related income within the Members' Benefit Investment Fund and the Self-Directed Investment Fund and there were no deficiencies or exceptions noted. The asset allocations were tested, including the allocation to the different investment pools of each of the Plans. Internal controls for contributions and distributions were tested to ensure they were

being calculated and processed appropriately and that any cost-of-living adjustments were properly factored in. The financial closing and reporting reconciliation procedures were analyzed to confirm how well the information is recorded into the Comprehensive Annual Financial Report (CAFR). There was no material exception.

The independent auditors' report states that the financial statements of FPPA have been audited and are the responsibility of the managers. All the evidence obtained in the audit is sufficient and appropriate for the opinion. FPPA is receiving a clean, unmodified opinion. The Yellow Book audit on internal controls over financial statements shows that there were no internal control deficiencies, there were no difficulties in dealing with management and there were no corrected or uncorrected misstatements or disagreements with management.

Mr. Kane went over the Governmental Accounting Standards Statement 68 (GASB 68) audit update, stating that it is in process. Selections of employers and participants were made and a census data test is completed at the employer level. Certain employers need to be tested every year, some need to be tested every five years, and some need to be tested every ten years, based on the level of contributions. There are 27 employers being tested this year.

Ms. Hitchens shared that she and Ms. Kurtz discussed how the audit had gone and concluded that everything had gone exceptionally well. There were daily check-in calls and everything was very timely and thoroughly answered. There weren't any concerns that came to the auditors' attention

Review of December 31, 2019, Comprehensive Annual Financial Report (CAFR)

Ms. Collins stated that the report is still in its draft version and will be posted on the FPPA website once complete. FPPA will be applying for the Government Finance Officers Association (GFOA) award. Ms. Collins stated that the CAFR is prepared under the accounting and reporting standards outlined by GASB and the report gives great insight into FPPA and how finances are managed. She went on to share that the Letter of Transmittal provides an introduction and summary about FPPA providing information on financials, funding status, and member counts.

Major initiatives that were accomplished in 2019 include the taskforce-approved legislation and that legislation was successfully passed. Employer and member education with more webinars were offered in 2019. The Sheriff Department affiliation legislation was passed in 2019 and FPPA has been working to implement it. Enhancements have been made to the employer and member portals, such as adding a new refund of contributions process and a new retiree address process. The GFOA award is a very long term, structured program and FPPA has won every award for every CAFR it has published since 1996.

Ms. Smith shared that FPPA is anticipating a clean opinion from the auditors with no material weaknesses or internal deficiencies identified during the audit process. The governance letter is provided by Eide Bailly and includes the Estimate of Fair Value for investments of the private equity funds and real estate and that is where recent adjustments were made. Original estimates from when the CAFR was first created were updated based on information received from investments. The amounts reported in this CAFR are not the identical amounts reported in the January 1, 2020, actuarial valuation because the methodology to get to those numbers is different based on the requirements of each report. The Management Discussion and Analysis provides an overview of financial activity for the year and insight as to what occurred and why, providing a snapshot to the reader. The Members' Benefit Investment Fund, which consists of the defined benefit plans and the Statewide Death and Disability Plan, has \$5.565 billion

in assets as of the end of 2019 and the Self-Directed Investment Fund has \$527 million in assets. The Statement of Fiduciary Net Position provides a snapshot of account balances as of the end of 2019 and is a reflection of net assets available to pay pension benefits due to FPPA members.

From the most recent actuarial study of the Discount Rate Sensitivity Disclosure shows a long term rate of return of 7%. This disclosure is a snapshot of what the net pension liability is for each plan at the 7% discount rate and also 1% higher and 1% lower. Within the Statement of Changes of Fiduciary Positions there is a deduction line item for pension expense that is income for 2019, the first time FPPA has had pension income.

In response to Ms. Frame's question, Ms. Smith confirmed that in 2019 Other Post-Employment Benefits (OPEB) produced a discount rate below the expected return on assets.

In response to Ms. Hitchens' question, Ms. Smith confirmed there wasn't any employer who was supposed to make a contribution that didn't.

Mr. Simon stated that performance for the long-term investment pool fund is very strong for the year at 14.76%, largely driven by equity markets where there is nearly a 40% allocation. Markets were up 20-30% with a strong bond market. Long term performance is solid at 9% since inception.

Ms. Collins went over the Certification letter and stated that valuations reported are based off the January 1, 2019, actuarial reports for all plans. Within the actuarial sections, the assumptions changed effective January 1, 2019, and the investment return assumption was reduced from 7.5% to 7% and the expected incidence of disability for members of the FPPA defined benefit plans was increased. The Board made the decision to change the investment assumptions effective January 1, 2020, for the actuarial valuations and three new asset pools have been incorporated: the Long-Term Pool, the Glide-Path Pool and the Short-Term Pool.

In response to Ms. Hitchens' question, Ms. Collins confirmed that a non-vested active member within the Statewide Defined Benefit Plan is a member who has less than five years.

Determine audit materials for Board Meeting

Ms. Collins reviewed the materials that will be added to the Board packet for Ms. Hitchens' presentation, including the Draft Independent Auditor's Report, the Draft Internal Controls Report, and the Governance Report.

Mr. Mantas moved that the Audit Committee recommend to the Board acceptance of the Auditor's SOC report. Ms. Morgan seconded the motion. The motion passed.

Ms. Morgan moved the Audit Committee recommend to the Board that it approve the CAFR. Ms. Frame seconded the motion. The motion passed.

The Audit Committee commended staff for the success of the SOC, financial, and CAFR reports.

Internal Auditor Reports

Ms. Reikofski went over the Payroll Processes and Investment Incentive Compensation Calculation report.

Three observations were noted for the payroll process. It was recommended that management implement an additional layer of review in the payroll process. The second recommendation was that management implement a process to communicate with employees around these changes. The third recommendation is that management work to complete payroll changes within the correct time period.

Ms. Gorton went on to share how she had implemented the three recommendations.

Ms. Reikofski went on to review the Investment Incentive Compensation. There were no known issues within the testing, but it was noted that the Investment Incentive Compensation calculation was using a prorated amount for employees who had a change in salary mid-year. It was recommended that FPPA update the policy to include how salary and position changes that occur mid-year are incorporated into the calculation. Ms. Gorton confirmed that FPPA will take the recommendation and is currently revising the policy.

Ms. Reikofski went on to review the Employee Expense Reimbursement Report, stating that a walk through regarding the process for employee expense reimbursements was performed within the Concur system, with a selection of transactions being selected to be traced through the process to evaluate that all received appropriate review and approval. No observations were found but it was noted that there is no formalized process in place to document the Board Chair's review of the Executive Director's and Board members' expense reports. BKD recommended that management adopt a process to document this. Mr. Slack stated that FPPA agreed with the recommendation and that procedures to implement that recommendation began in April.

Accounting Fraud Prevention Discussion

Ms. Smith provided an update on what the Accounting department is doing to prevent fraud and tighten up procedures. FPPA has two banks that have dual authorization on user account access and changes. Activities in these accounts are reviewed daily and reconciled monthly. Payment transactions are completed electronically via ACH or wires using dual authorization to process payments and also for initial set up of vendors. Changes to vendor or retiree banking information is confirmed with a call to verify the changes requested directly with the vendor or retiree prior to implementation.

There have been additional precautions taken while working from home such as direct communications with the accounting staff to remind them what FPPA is doing to protect members and their confidential information such as not printing any documents from home and converting processes to digital.

Audit Charter Review

Mr. Slack provided a review of the Audit Charter, stating that the Charter has a requirement that the Audit Committee review it periodically. Mr. Slack stated that the Audit Committee exists to assist the Board with fulfilling its fiduciary responsibility. The Committee must oversee management, to ensure that there is an adequate system of internal controls and that there are knowledgeable and reputable accountants auditing FPPA. Responsibilities include reviewing and approving the internal FPPA audit plan, work with independent accountants regarding the scope of their service and review of any significant risks or exposure, as well as the authority to conduct investigations within the scope of Committee responsibilities.

Evaluation of Eide Bailly, LLP.

Ms. Collins reviewed the annual evaluation of Eide Bailly. It is important to note the great accomplishment of Eide Bailly in its remote management in conducting the audit, which was completed seamlessly and on time. Ms. Collins went through each question and asked the Committee for their comments.

Adjournment

Ms. Morgan moved to adjourn the meeting. Mr. Mantas seconded the motion. The motion passed.

At 10:07 a.m., Chair Hitchens declared the meeting adjourned.