

## MEMORANDUM

**TO:** Audit Committee  
Jon Strinden  
Ron Leingang

**FROM:** Jamie Kinsella, Internal Auditor

**DATE:** May 19, 2006

**SUBJECT:** **February 15, 2006 Audit Committee Meeting**

In Attendance:

Jon Strinden via conference call  
Ron Leingang  
Jamie Kinsella  
Sparb Collins  
Sharon Schiermeister  
Leon Heick

The meeting was called to order at 10:37 a.m.

**I. November 30, 2005 Audit Committee Minutes**

The audit committee minutes were examined and approved by the Audit Committee.

**II. Internal Audit Quarterly Report**

- A. Internal Audit Status Update – Included with the audit committee minutes was the Internal Audit quarterly report which listed all of the projects that are in active status. In addition, an updated Goals and Objectives Report summarizing the status as of the end of the last quarter was also included. This report is the annual goals and objectives of the internal audit division provided to the Executive Director at the beginning of each year to be included in the NDPERS Business Plan report to the Board. Since the internal audit division did not provide goals and objectives for 2006, an update was placed on the 2005 report. Discussion followed on the accounting staff shortages. The audit committee was updated on the proposed plan for staffing the accounting division for the short and long term. The audit committee will be informed of changes as they occur.
- B. Quarterly Audit Finding Status Report - As stated in the Audit Policy #103, the Internal Audit Division is to report quarterly to management and the audit committee the status of the audit findings of the external auditors, as well as any found by the internal auditor. This report includes the recommendations made by Eide Bailly during the 2005 fiscal year end audit. Findings by Internal Audit are included after the final audit report has been issued to

management that includes responses to the findings. A copy of the report was included with the audit committee materials. Mr. Leingang inquired about #04-11. Ms. Kinsella conveyed that this is one of the projects Mr. Heick has been working on. It has been completed for the first 6 months of this fiscal year and of the 6 months, 3 are reconciled.

- C. Annual Internal Audit Plan for 2006 – Ms. Kinsella indicated the Annual Audit Plan for 2006 had been placed on hold due to unforeseen circumstances in the office. Ms. Kinsella conveyed that once things have turned around a plan will be written for the remainder of the calendar year.
- D. Annual Audit Report for 2005 – Included in the audit committee materials was a copy of the Internal Audit Division's Annual Report for the 2005 calendar year for review and approval. If there are no changes, the final copy will be signed by Mr. Strinden and Ms. Kinsella. This copy will be available to anyone who would like one. Discussion followed regarding the table on page 1 of the report which showed the changes in the various programs in membership and dollars in the last year, and between 2000 and 2005. By general consensus, the audit committee approved the Annual Audit Report for 2005.

### III. Miscellaneous

- A. May 2006 Audit Committee Meeting Date – The next audit committee meeting will be held on Wednesday, May 17, 2006 at 10:30am in the NDPERS Conference room, Wells Fargo Bank Building.
- B. Publications – A copy of the September 2005 issue of Tone at the Top was included in the audit committee materials.
- C. Confidential Meeting Between Audit Committee and Auditors – The standards for the Professional Practice of Internal Auditors Practice Advisory 1110-1 on Independence and Objectivity states, in part: “the auditor should have direct communications with the board. Regular communication with the board helps assure independence....” Also, the charter states “The Audit Committee shall have direct communication with the Internal Auditor, have the Internal Auditor attend all meetings... and meet privately with the Internal Auditor at least annually.”

The meeting between the audit committee and the internal audit division took place at the February 15, 2006 meeting. The following items were discussed:

- 1) Staffing
- 2) Cross training
- 3) Software
- 4) Internal Audit Division
- 5) Quality Assurance Review

The meeting adjourned at 11:27 a.m.

## MEMORANDUM

**TO:** Audit Committee  
Jon Strinden  
Ron Leingang

**FROM:** Jamie Kinsella, Internal Auditor

**DATE:** May 23, 2007

**SUBJECT:** **May 18, 2006 Audit Committee Meeting**

In Attendance:

Jon Strinden via conference call  
Ron Leingang  
Jamie Kinsella  
Sparb Collins  
Sharon Schiermeister  
Leon Heick  
John Mongeon  
Pat Brown

The meeting was called to order at 11:35 a.m.

**I. May 18, 2006 Audit Committee Minutes**

The audit committee minutes were examined and approved by the Audit Committee.

**II. Internal Audit Quarterly Report**

- A. Internal Audit Status Update – Included with the audit committee minutes was the Internal Audit quarterly report which listed all of the projects that are in active status. Ms. Kinsella indicated she did not include the Goals and Objectives Report for 2006 as it has been updated but will be revised due to the staffing situation in Accounting and the Information Technology Replacement Project. Ms. Kinsella conveyed she will include the revised report in August. There continues to be a shortage of staff in Accounting, specifically in Deferred Compensation. It is unknown when the Deferred Compensation position will be filled. Mr. Heick has been doing the daily critical functions for this position. He will continue in this capacity until the position is filled. The Group Insurance area is back to normal, however, there may be additional assistance needed in the future. It was also brought to the Audit Committee's attention that the Flex Comp reconciliation is being turned over to the accounting division. Also, staff received notification from BCBS that they have recalculated the interest on the Interest Calculation Report. This resulted in an additional \$149,348.00 for the 2003-2005 period, and \$34,518.00 for the 2005-2007 period, for a total increase in interest of \$183,866.00. Mr. Collins explained that due to the inconsistency found by the internal auditors, staff questioned BCBS

why they changed their methodology for computing the interest. BCBS explained that the contract stated the 5 year treasury rate should be 60 days out, and not 60 months. Staff explained that the method used was what staff was told to do by BCBS from the beginning and inquired why the change now when the wording of the contract is still the same as the beginning. BCBS reviewed how it was done and agreed to follow the same method that has always been used, but indicated they disagreed with the method. Mr. Collins conveyed this will be an item that will be addressed during the 2007-2009 contract review.

- B. Quarterly Audit Finding Status Report - As stated in the Audit Policy #103, the Internal Audit Division is to report quarterly to management and the audit committee the status of the audit findings of the external auditors, as well as any found by the internal auditor. This report includes the recommendations made by Eide Bailly during the 2005 fiscal year end audit. Findings by Internal Audit are included after the final audit report has been issued to management that includes responses to the findings. A copy of the report was included with the audit committee materials. Ms. Kinsella indicated that progress has been made on 3 of the findings, work has been completed on 4 findings and there are 19 outstanding findings. Mr. Strinden inquired if there were any findings that should be addressed before others since there are so many of them and so little resources. Staff will review the report and determine if the findings can be prioritized so that those that are more important can be completed sooner.
- C. Annual Internal Audit Plan for 2006 – The Annual Audit Plan for 2006 was drafted for the Audit Committee's review and approval and was included in the Audit Committee materials. Once the document is approved, the final copy will need to be signed by Mr. Strinden and Ms. Kinsella. A few changes were made due to the IT project and staffing. The hours per area were not estimated and performance measures were not set forth because it is unknown how much the Internal Audit division will be needed in the coming months. By general consensus, the audit committee approved the 2006 Internal Audit Annual Audit Plan. Mr. Strinden will sign the cover and send to the NDPERS office.

### III. Administrative

- A. Performance Evaluation – Ms. Kinsella's performance evaluation will be reviewed in the next couple of weeks. Mr. Collins will mail the Performance Evaluation form to Mr. Leingang since he could not open the document. Mr. Collins will be in contact with the Audit Committee members so this can be finished by mid-June.
- B. Audit Committee Charter Review – A year ago a matrix was developed to use to evaluate the Audit committee's performance in meeting their objectives. At that time the Audit Committee decided it would like to conduct the evaluation on a calendar basis. Included with the Audit Committee materials was the matrix for the 2005 activity. Discussion followed. The Audit Committee approved the matrix and will be submitted to the NDPERS board along with a cover memo.
- C. Internal Audit Charter Review – Ms. Kinsella indicated since she developed the matrix for the Audit Committee Charter, she thought she would use the same format for reviewing the Internal Audit Charter. Included with the Audit Committee materials was the matrix for the 2005 calendar year. Discussion followed. The Audit Committee approved the matrix and will be submitted to the NDPERS board along with a cover memo.

#### IV. Miscellaneous

- A. Brady Martz – Mr. John Mongeon and Mr. Pat Brown appeared before the Audit Committee to present their planned audit scope and approach. They reviewed the staff that will be on the audit team, the type of audit they will do, the audit scope and objectives, the timing of the audit, testing of compliance and internal controls, managements responsibilities, new Statement of Auditing Standards (SAS) and new GASB Standards.
- B. Audit Committee Meeting - The next audit committee meeting will be held on Wednesday, August 16, 2006 at 10:30am in the NDPERS Conference room, Wells Fargo Bank Building.
- C. Continuing Education - Ms. Kinsella and Mr. Heick attended a 2 day seminar on Audit Project Management in Bismarck. An overview of the seminar topics was included in the Audit mmittee materials. The seminar provided 15 continuing education credits. Staff felt it was an excellent seminar.
- D. Publications – A copy of the March 2006 issue of Tone at the Top and articles from the Government Finance Review were included in the audit committee materials. Ms. Schiermeister expressed an interest in having management learn more about internal control. The article “Understanding Internal Control” did an excellent job clarifying that controls are not just for reliable financial reporting, but also addresses effectiveness and efficiency of operations and legal and regulatory compliance.
- E. Other – Mr. Strinden proposed the idea of having a third Audit Committee member who is outside of the agency. Mr. Leingang mentioned that the State Investment Board has an Audit Committee member from MDU and when he asked her if she would be willing to serve on the NDPERS Audit Committee she was agreeable. This would require a change to the Audit Committee Charter. Ms. Kinsella will revise the wording and send to Mr. Strinden and Mr. Leingang via email for their approval. Once approved, the revised Audit Committee charter will go to the NDPERS Board for their approval in June. We would invite the new member to meet the board members in July and then she would be attending the August Audit Committee meeting.

The meeting adjourned at 12:20 p.m.

## MEMORANDUM

**TO:** Audit Committee  
Jon Strinden  
Ron Leingang

**FROM:** Jamie Kinsella, Internal Auditor

**DATE:** May 23, 2007

**SUBJECT:** **July 6, 2006 Audit Committee Meeting**

In Attendance:  
Jon Strinden via conference call  
Ron Leingang  
Sparb Collins  
Jamie Kinsella  
Sharon Schiermeister

The meeting was called to order at 1:30 p.m.

The meeting was called to discuss the upcoming staffing needs during the Business System Replacement Project. This information was needed for budget purposes. Mr. Collins indicated there were two options: 1) ask for 4 FTE's, 2 for accounting and 2 for benefits programs; or 2) ask for 3 FTE's, 1 for accounting and keeping the Internal Audit Staff that is currently assisting accounting, and 2 for benefits programs. After discussion, the Audit Committee recommended that management request 4 FTE's in the budget.

The meeting adjourned at 2:00 p.m.

## MEMORANDUM

**TO:** Audit Committee  
Jon Strinden  
Ron Leingang

**FROM:** Jamie Kinsella, Internal Auditor

**DATE:** May 23, 2007

**SUBJECT:** **August 16, 2006 Audit Committee Meeting**

In Attendance:

Ron Leingang  
Rebecca Dorwart  
Jamie Kinsella  
Sparb Collins  
Sharon Schiermeister  
Leon Heick

The meeting was called to order at 10:30 a.m.

**I. May 18, 2006 and July 6, 2006 Audit Committee Minutes**

The audit committee minutes were examined and approved by the Audit Committee.

**II. Internal Audit Quarterly Report**

- A. Internal Audit Status Update – Included with the audit committee minutes was the Internal Audit quarterly report which listed all of the projects that are in active status. In addition, an updated Goals and Objectives Report summarizing the status as of the end of the last quarter was also included. This report is the annual goals and objectives of the internal audit division provided to the Executive Director at the beginning of each year to be included in the NDPERS Business Plan report to the Board. It was brought to the Audit Committee's attention that 3 audit reports have been waiting for responses since October 2005. Discussion followed. It was decided by the Audit Committee to give management until the next Audit Committee meeting to respond, to which management agreed.
- B. Quarterly Audit Finding Status Report – As stated in the Audit Policy #103, the Internal Audit Division is to report quarterly to management and the audit committee the status of the audit findings of the external auditors, as well as any found by the internal auditor. This report includes the recommendations made by Eide Bailly during the 2005 fiscal year end audit. Findings by Internal Audit are included after the final audit report has been issued to management that includes responses to the findings. A copy of the report was included with the audit committee materials. Also attached to the report was a report in response to the Audit Committee's request in May to have staff review and prioritize the recommendations. Discussion followed. The Audit Committee felt the results of staff's review were adequate.

### III. Administrative

- A. Performance Evaluation – Ms. Kinsella’s annual performance evaluation was completed in June 2006.
- B. Internal Audit Charter Review – The Internal Audit Charter was reviewed and will not need any revisions at this time.
- C. Audit Committee Charter Review – The Audit Committee Charter was reviewed and will not need any revisions at this time.

### IV. Miscellaneous

- A. Audit Committee Meeting - The next audit committee meeting will be held on November 29, 2006 at 10:30am in the NDPERS Conference room, Wells Fargo Bank Building.
- B. Brady Martz – Brady Martz was in the NDPERS office July 11-13 to conduct their preliminary audit work. They will be in the office August 28 through September 8 for field work. They will present their audit report at the November Audit Committee meeting.
- C. Publications – A copy of the July 2006 issue of Tone at the Top and an article from the April 2006 issue of Government Finance Officers Association GAAFR Review were included in the audit committee materials.

The meeting adjourned at 11:20 a.m.

## MEMORANDUM

**TO:** Audit Committee  
Jon Strinden  
Ron Leingang

**FROM:** Jamie Kinsella, Internal Auditor

**DATE:** May 23, 2007

**SUBJECT:** **September 11, 2006 Audit Committee Meeting**

In Attendance Via Teleconference:

Ron Leingang  
Jon Strinden  
Rebecca Dorwart  
Jamie Kinsella  
Sparb Collins  
Sharon Schiermeister  
Leon Heck

The meeting was called to order at 1:40 p.m.

### **I. Review of Work Efforts**

The meeting was called to discuss the need for support in the accounting area for the group insurance program. Mr. Collins provided the Audit Committee members with some background to the situation via an email. Discussion followed. The Audit Committee understood that staff will evaluate the situation in 45-60 days and if necessary, will bring in another temporary staff person to take over full time.

The meeting adjourned at 2:00 p.m.

## MEMORANDUM

**TO:** Audit Committee  
Jon Strinden  
Ron Leingang

**FROM:** Jamie Kinsella, Internal Auditor

**DATE:** May 23, 2007

**SUBJECT:** **December 6, 2006 Audit Committee Meeting**

In Attendance:

Ron Leingang  
Rebecca Dorwart  
Jamie Kinsella  
Sparb Collins  
Sharon Schiermeister  
Leon Heick

The meeting was called to order at 1:30 p.m.

**I. August 16, 2006 and September 11, 2006 Audit Committee Minutes**

The audit committee minutes were examined and approved by the Audit Committee.

**II. Internal Audit Quarterly Report**

- A. Internal Audit Status Update – Included with the audit committee minutes was the Internal Audit quarterly report which listed all of the projects that are in active status. At the August meeting it was brought to the Audit Committee's attention that 3 audit reports have been waiting for responses since October 2005. All of the findings have been responded to so these audits will be closed out.
- B. Quarterly Audit Finding Status Report – As stated in the Audit Policy #103, the Internal Audit Division is to report quarterly to management and the audit committee the status of the audit findings of the external auditors, as well as any found by the internal auditor. The report included recommendations made by Brady Martz during the 2006 fiscal year end audit. Recommendations by Internal Audit are included after the final audit report has been issued to management that includes their responses to the recommendations. A review of the updated report showed that four were completed, and progress was made on one this quarter. Ms. Dorwart inquired whether the older recommendations were still applicable. Ms. Kinsella indicated that management reviewed the recommendations last spring upon the Audit Committee's request and re-prioritized them.

### III. Administrative

- A. Update on Group Insurance Staffing Status – The accounting staff decided in late September to proceed and hire a temporary accountant to replace the staff member out on leave of absence. The accountant began employment on November 1, 2006 and has been working diligently on getting the backlog of group insurance reconciliations completed and up to date. Once this has been accomplished, Ms. Kinsella will begin training her on the daily work so she can take over all aspects of the group insurance duties. While she is doing the daily work, Ms. Kinsella indicated she will continue to work on past adjustments that require research in the group insurance area. Ms. Kinsella conveyed once everything is caught up she anticipated returning to her duties in the Internal Audit Division in January. Ms. Schiermeister indicated that she hoped the services of the Internal Audit would no longer be needed by the end of January.
- B. Internal Audit Plan for 2007 – Ms. Kinsella indicated due to the time involved in the Group Insurance Division, she had not been able to develop an Internal Plan for 2007 and hoped to have a plan developed by the Audit Committee meeting in February.
- C. Pharmacy Benefits Manager (PBM) Project – Per the October board meeting, the Board decided to have the PBM issue referred to the Audit Committee once BCBS responded to the question whether NDPERS can audit the PBM. At the November board meeting it was determined by BCBS that NDPERS does not have a direct audit authority of the BCBSND vendors. At that time, staff and the board concurred that NDPERS accept the BCBS position. However, the Board indicated NDPERS will need to be granted authority in the next year or NDPERS will not go through another renewal with them. Staff recommended that the Audit Committee bring in a consultant specializing in PBM audits to educate and discuss PBM audits at a meeting. The Audit Committee approved by general consensus to bring in a consultant specializing in PBM audits for the next Audit Committee meeting.

### IV. Miscellaneous

- A. Audit Committee Meeting - Included with the audit committee materials were the 2007 proposed audit committee meeting dates and times. Mr. Striden and Mr. Leingang approved of the 2007 meeting dates. Ms. Dorwart will get back to Ms. Kinsella regarding the May and August proposed meeting dates.
- B. Brady Martz & Associates Audit Report – Brady Martz presented their FY 2006 audit report to the Audit Committee. Brady Martz brought to the Audit Committee's attention to the bottom of the first page of the report where it was reported from the actuary report the unfunded liability for the Main and Highway Patrol Defined Benefit programs. Mr. Collins explained that at market value the liability is 100% funded. Discussion followed. A copy of the report was included with the meeting materials. The final audit report will be presented to the Board at the December board meeting.

- C. Publications – A copy of the August and November 2006 issues of Tone at the Top were included in the audit committee materials.

The meeting adjourned at 2:45 p.m.