

MEMORANDUM

TO: Audit Committee
Jon Strinden
Ron Leingang

FROM: Jamie Kinsella, Internal Auditor

DATE: August 25, 2009

SUBJECT: **February 18, 2009 Audit Committee Meeting**

In Attendance:

Jon Strinden, via conference call
Ron Leingang
Rebecca Dorwart
Jamie Kinsella
Sparb Collins
Leon Heick

The meeting was called to order at 10:00 a.m.

I. November 19, 2008 Audit Committee Minutes

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

II. Internal Audit Quarterly Report

- A. Internal Audit Quarterly Report – The Internal Audit quarterly report listed all of the projects that are in active status as of January 31, 2009. There were several items added to the report. These were items that were found on the audit plan for 2007-2009 and never added to the quarterly audit plan status report. There was 1 audit project and 2 other projects that were completed this quarter.

Quarterly Audit Recommendation 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 recommendations of the external auditors, as well as any found by the internal auditor.

During the past year efforts have been made to ensure that management continues to work on these recommendations. As part of this process, staff reviews these recommendations and their progress at the quarterly Loss Control Committee meetings. Ms. Kinsella reported that three internal audit recommendations should show significant progress by the May meeting. The last recommendation was questioned, which was regarding the IT anti-virus software. It was noted that it was to be completed by December 2008, but there has been no change in the last quarter. This should be done by the next external audit.

III. Administrative

- A. Internal Audit Annual Report for 2008 - Included with the audit committee materials was a copy of the Annual Audit Report for January 1, 2008 through December 31, 2008. The audit committee approved the 2008 Internal Audit Report.
- B. Audit Committee Charter Activity Review – The Audit Committee Charter stated that it will “17. Confirm annually that all responsibilities outlined in this charter have been carried out. Report annually to the Board, members, retirees and beneficiaries, describing the committee’s composition, responsibilities and how they were discharged, and any other information required by rule, including approval of non-audit services.” To meet this requirement a matrix was developed to review against current practices to ensure that the audit committee is meeting its responsibilities. Included with the audit committee materials was a copy of the matrix for the audit committee’s review. A copy of the matrix will also be provided to the NDPERS Board for their information.
- C. Performance Evaluation – It is time for Ms. Kinsella’s performance evaluation. The due date for having these completed is February 28. Mr. Collins discussed the format for Ms. Kinsella’s evaluation with the audit committee.
- D. Audit Committee Meeting Date & Time – The May audit committee meeting is scheduled for May 20, 2009 at 10:00am.

IV. Miscellaneous

- A. Pharmacy Benefits Manager (PBM) Project – Ms. Kinsella conveyed staff had received information from BCBS but due to the BCBS renewal process and legislative bills, staff had not been able to review the material. Ms. Kinsella indicated it was staff’s goal to have this fully initiated during the second quarter of 2009.
- B. Risk Management Report – At the May audit committee meeting, it was determined that a Risk Management Policy for PERS would not be necessary since a Loss Control Committee is in place to manage risk for the agency. At that time It was suggested that the Loss Control Committee provide a copy of the last meeting agenda and the approved minutes. Deb Knudsen, who oversees the Loss Control Committee, will come to the August meeting each year to update the audit committee on the Loss Control Committee, its purpose, and to answer any questions the audit committee may have. Included with the audit committee materials was a copy of the approved meeting minutes for September 2008 and the agenda for the December 2008 meeting.
- C. PERSLink Quarterly Report – Included with the audit committee minutes was the PERSLink quarterly status report. NDPERS is required to file this report with ITD throughout the duration of the system replacement project. This was for information only.

- D. Report on Consultant Fees - According to the Audit Committee Charter, the audit committee should “Periodically review a report of all costs of and payments to the external financial statement auditor. The listing should separately disclose the costs of the financial statement audit, other attest projects, agreed-upon-procedures and any non-audit services provided.” Included with the audit committee materials was a copy of the report showing the consulting, investment and administrative fees paid during the quarter ended December 31, 2008. Mr. Collins indicated that the investment fees are being reviewed and compared to other public pension funds.

- E. Continuing Professional Education – Ms. Kinsella indicated she and Leon attended the IIA Central NoDak’s seminar in December 2008. This seminar provided 16 continuing professional education credits and the topic was Communication and Interpersonal Issues for Auditors and High Impact Auditing.

- F. Publications – Included with the audit committee materials were publications and/or articles from the Institute of Internal Auditors.

The meeting adjourned at 10:40 a.m.

MEMORANDUM

TO: Audit Committee
Jon Strinden
Ron Leingang

FROM: Jamie Kinsella, Internal Auditor

DATE: August 20, 2009

SUBJECT: **May 20, 2009 Audit Committee Meeting**

In Attendance:

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

The meeting was called to order at 10:05 a.m.

I. February 18, 2009 Audit Committee Minutes

Mr. Leingang moved to approve the audit committee minutes from the February 18, 2009 meeting. Ms. Dorwart seconded the motion.

II. Internal Audit Quarterly Report

A. Internal Audit Quarterly Report – The Internal Audit quarterly report listed all of the projects that are in active status as of April 30, 2009. There were several items added to the report. These were items that were found on the audit plan for 2007-2009 and never added to the quarterly audit plan status report. There was 1 audit project and 1 other project that were completed this quarter.

Quarterly Audit Recommendation 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 recommendations of the external auditors, as well as any found by the internal auditor.

During the past year efforts have been made to ensure that management continues to work on these recommendations. As part of this process, staff reviews these recommendations and their progress at the quarterly Loss Control Committee meetings. In the past quarter, one recommendation was completed, progress made on five, and no change for two of the recommendations.

III. Administrative

- A. Performance Evaluation – Ms. Kinsella indicated her annual performance evaluation was held with Mr. Collins on May 19, 2009.
- B. Audit Committee Meeting Date & Time – The August audit committee meeting is scheduled for August 19, 2009 at 10:00am.
- C. Confidential Meeting between Internal Audit and Audit Committee – The meeting between the audit committee and the internal audit division is scheduled to take place in February of each year. However, due to an oversight on Ms. Kinsella's part this was not included in the February agenda.

IV. Miscellaneous

- A. External Audit – Ms. Kinsella indicated staff received notice from the State Auditor's office that they awarded the 3-year audit contract to Brady Martz & Associates for fiscal years ending June 30, 2009, 2010, and 2011. The preliminary audit work has been scheduled for the week of June 22-26, 2009. They will conclude with their field work August 24 through September 4, 2009.
- B. Pharmacy Benefits Manager (PBM) Project – Ms. Kinsella conveyed staff had received information from BCBS but due to the BCBS renewal process and legislative bills, staff had not been able to review the material. Ms. Kinsella indicated it was staff's goal to have a proposed RFP for the audit committee's review at the August 2009 audit committee meeting.
- C. Risk Management Report – At the May audit committee meeting, it was determined that a Risk Management Policy for PERS would not be necessary since a Loss Control Committee is in place to manage risk for the agency. At that time it was suggested that the Loss Control Committee provide a copy of the last meeting agenda and the approved minutes. Deb Knudsen, who oversees the Loss Control Committee, will come to the August meeting each year to update the audit committee on the Loss Control Committee, its purpose, and to answer any questions the audit committee may have. Included with the audit committee materials was a copy of the approved meeting minutes from the December 2008 meeting and the agenda for the April 2009 meeting.
- D. PERSLink Quarterly Report – Included with the audit committee minutes was the PERSLink quarterly status report. NDPERS is required to file this report with ITD throughout the duration of the system replacement project. This was for information only.
- E. Report on Consultant Fees - According to the Audit Committee Charter, the audit committee should "Periodically review a report of all costs of and payments to the external financial statement auditor. The listing should separately disclose the costs of the financial statement audit, other attest projects, agreed-upon-procedures and any non-audit services provided." Included with the audit committee materials was a copy of the report showing the consulting, investment and administrative fees paid during the quarter ended March 31, 2009.

- F. Continuing Professional Education – Ms. Kinsella indicated she attended the IIA Central NoDak's seminar on May 6-7, 2009. This seminar provided 14 continuing professional education credits and the topics were Reporting: The Foundation for Drafting and Issuing High Impact Reports; Dodging the Bullet: Top Five Mistakes Audit Makes; and Continuous Auditing – Harnessing the Power.

The meeting adjourned at 11:15 a.m.

MEMORANDUM

TO: Audit Committee
Jon Strinden
Ron Leingang

FROM: Jamie Kinsella, Internal Auditor

DATE: February 18, 2010

SUBJECT: **August 19, 2009 Audit Committee Meeting**

In Attendance:

Jon Strinden, via conference call
Arvy Smith, via conference call
Rebecca Dorwart
Jamie Kinsella
Sparb Collins
Sharon Schiermeister
Leon Heck
Deb Knudsen

The meeting was called to order at 10:05 a.m.

I. May 20, 2009 Audit Committee Minutes

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

II. Internal Audit Quarterly Report

- A. Internal Audit Quarterly Report – The Internal Audit quarterly report listed all of the projects that are in active status as of July 31, 2009. There was 1 audit project and 3 consulting and other services that were completed this quarter. Discussion followed. Report design will be reviewed and revised for the next meeting.
- B. Quarterly Audit Recommendation 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 recommendations of the external auditors, as well as any found by the internal auditor. In the past quarter no recommendations were completed, progress made on six, and no change for one of the recommendations. The recommendations will be a priority for the internal audit division to complete before Brady Martz completes their audit.
- C. Employer Audits – There was discussion at the May audit committee meeting about why NDPERS internal audit division does not conduct employer audits when the Retirement and Investment Office does. Staff explained that this topic had been discussed a few years after the internal audit division was formed, and

a determination was made by the Attorney General. Included in the audit committee materials was a copy of the Attorney General's letter. Staff also polled the audit firms and the State Auditor's office to find out if they included in their audits of governmental agencies tests to determine if eligible employees are properly enrolled in the NDPERS retirement system. Their responses were included in the audit committee materials. Discussion followed, with the determination that no further action is required.

- D. Final Average Salary Review – A few meetings ago it was mentioned that staff was conducting a review of final average salary after having found some employees with unusual salary fluctuations in their final average salary calculations. During that review staff found that there were three types of payroll methods used by employers enrolled in the retirement plan: monthly payroll, twice monthly payroll and every two weeks payroll (26 payrolls in a year). NDPERS requires the employers to report their payroll to NDPERS monthly for retirement contributions. When an employer is using the every two weeks payroll method it results in salary fluctuations. Staff conducted a survey of employers to determine what type of payroll methods they use and approximately the number of employers in each category. Included with the audit committee materials were the results received to date from that survey. At the next meeting staff will review this information and discuss some options. No later than the February 2010 meeting it will need to be determined if it will be necessary to recommend action on this issue to the NDPERS Board. Any action on this issue will likely require a change in statutes which means it would be necessary to submit legislation which must be approved by the Board no later than March of 2010 to be considered by the next legislative session. Discussion followed. The audit committee requested that staff provide options regarding this issue at the next audit committee meeting.

III. Administrative

- A. Audit Committee Meeting Date & Time – The November audit committee meeting is scheduled for November 18, 2009 at 10:00am.
- B. New Audit Committee Member – Ms. Kinsella indicated Mr. Leingang decided not to run for the NDPERS Board when his term as a retiree representative expired. Ms. Arvy Smith has graciously volunteered to serve on the NDPERS audit committee. Ms. Smith is the Health Department appointee on the Board.
- C. Summary of Proposed Rule Changes – Per the audit committee charter, the audit committee is to monitor changes and proposed changes in laws, regulations and rules affecting the organization. Included with the audit committee materials was a draft of the summary of rule changes that will be used in the promulgation of the rules. This was provided for information only.

IV. Miscellaneous

- A. External Audit – The auditor's were in the office starting June 22 and wrapped up their preliminary work June 30. They will conclude with their field work August 24 through September 4, 2009. Staff has been assisting them with their field work

by sending out confirmation letters for various retirement groups and testing the data therein, as well as testing Flex Comp claims and deposits. It is staff's hope to have this testing done by August 24 when the auditors return.

- B. Pharmacy Benefits Manager (PBM) Project – A draft of the RFP compiled by staff was distributed at the audit committee meeting. The audit committee decided to go forward with the RFP. We will have our consultant review the RFP and then present it to the Board in September for their approval.
- C. Travel Expenditures – A discussion came up recently regarding how other public pension systems review and approve the expenses of Board Members/Trustees and the Executive Director with the Association of Public Pension Fund Auditors (APPFA). The current practice is that Sparb Collins, NDPERS Executive Director, reviews the travel expenditures of Board members to ensure they meet state guidelines and the internal auditor reviews and approves Sparb's travel expenditures. The question staff had for the audit committee was whether they would like to continue this practice or would they want to restructure this in a different way. Mr. Strinden recommended reporting to the audit committee semi-annually a list of travel reimbursements for the Board members and the Executive Director. Also, the audit committee recommended reporting any questionable items by Board members to the audit committee if they arise
- D. Risk Management Report – At the May audit committee meeting, it was determined that a Risk Management Policy for PERS would not be necessary since a Loss Control Committee is in place to manage risk for the agency. At that time It was suggested that the Loss Control Committee provide a copy of the last meeting agenda and the approved minutes. Deb Knudsen, who oversees the Loss Control Committee, presented an overview of the committee's activities from the past year. Included with the audit committee materials was a copy of the approved meeting minutes from the April 2009 meeting and the agenda for the June 2009 meeting.
- E. PERSLink Quarterly Report – Included with the audit committee minutes was the PERSLink quarterly status report. NDPERS is required to file this report with ITD throughout the duration of the system replacement project. This was for information only.
- F. Report on Consultant Fees - According to the Audit Committee Charter, the audit committee should "Periodically review a report of all costs of and payments to the external financial statement auditor. The listing should separately disclose the costs of the financial statement audit, other attest projects, agreed-upon-procedures and any non-audit services provided." Included with the audit committee materials was a copy of the report showing the consulting, investment and administrative fees paid during the quarter ended June 30, 2009.
- G. Continuing Professional Education – Ms. Kinsella indicated she and Mr. Leon Heick attended the State Auditor's office seminar on June 15-16, 2009. This seminar provided 16 continuing professional education credits and the topics were New Audit Sampling Guide and Related Risk Assessment Standards.

- H. Publications – Included with the materials were articles from the Institute of Internal Auditors for the audit committee’s education.

The meeting adjourned at 11:15 a.m.