

MEMORANDUM

TO: Audit Committee
Jon Strinden
Ron Leingang

FROM: Jamie Kinsella, Internal Auditor

DATE: August 23, 2010

SUBJECT: **February 17, 2010 Audit Committee Meeting**

In Attendance:
Jon Strinden, via conference call
Arvy Smith
Rebecca Dorwart
Jamie Kinsella
Leon Heick

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

I. August 19, 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 October 31, 2009 and January 31, 2010. Discussion followed regarding the accounting staff being timely with their reconciliation projects. Ms. Kinsella indicated that two areas were not being done so the internal audit staff helped bring this up to date. Staff will discuss this with the accounting supervisor. Also, this is addressed in the one external audit recommendation which will require management action.
- 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. For the quarter ending October 31, 2009, 3 recommendations were completed, progress made on two, and no change for two recommendations. The last recommendation was added from the FY 2009 external audit. For the quarter ending January 31, 2010, 3 recommendations were completed, and no change on 2 recommendations. The audit committee recognized that significant progress was made over the years to address and complete the recommendations.

- C. Audit Committee Charter Activity Review – The Audit Committee Charter states 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 matrix for review. Discussion followed. A few items will be restated before the report goes to the Board.
- D. Annual Audit Plan for 2010/2011 – Included with the audit committee materials was a copy of the annual Internal Audit Plan for 2010/2011 for review and approval. The final copy will be signed by Mr. Strinden and Ms. Kinsella. This copy will be available to anyone who would like to see or want a copy. The audit committee approved conditionally that wording should be added to allow for flexibility for internal audit to evaluate risk and prioritize projects accordingly.
- E. Internal Audit Annual Report for 2009 - Included with the audit committee materials was a copy of the annual Internal Audit Report for 2010 for review. The final copy will be signed by Mr. Strinden and Ms. Kinsella. This copy will be available to anyone who would like to see or want a copy.

III. Administrative

- A. Audit Committee Meeting Date & Time – Ms. Kinsella compiled a schedule of the proposed 2010 audit committee meeting dates and times. The audit committee approved the 2010 meeting schedule.
- B. Performance Evaluation – It is time for Ms. Kinsella’s performance evaluation. The due date for having these completed is March 15. Mr. Collins will be discussing the format for Ms. Kinsella’s evaluation with the audit committee.
- 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 and was held at the close of the audit committee meeting.

IV. Miscellaneous

- A. Brady Martz & Associates’ Audit Report Presentation - Brady Martz presented their FY 2009 audit report to the audit committee member who attended the November meeting. Since there wasn’t a quorum a full meeting was not held. The final audit report will be presented to the Board at the February board meeting.
- B. Pharmacy Benefits Manager (PBM) Project – The PBM audit RFP was mailed to 30 vendors. The proposals were due by November 20, 2009. A total of 14 proposals were received. After the review team completed their assessment, it was recommended by the team that TriCast would be the best choice to conduct

the audit. TriCast agreed to do the work required in the RFP and also proposed expanding their audit to include 12 months of all pharmacy claims at no additional cost instead of the fourth quarter as stated in the RFP. Staff completed the contract negotiations, and as of this date, staff will be meeting with the TriCast team soon to discuss the details. Included with the audit committee materials was a copy of the RFP.

- C. Final Average Salary Review – At the August meeting staff reviewed the results of the final average salary review. A copy of the memo was included for reference. This review found employees with unusual salary fluctuations in their final average salary calculations. After staff reviewed this information, the audit committee was informed that no later than the February meeting a determination would need to be made whether action would need to be recommended on this issue to the PERS board. Any action on this issue would likely require a change in statutes which requires legislation to be submitted for the board’s approval no later than March 2010. The November meeting was cancelled and since Mr. Collins was unable to attend the February meeting, a separate meeting via conference call will have to be conducted. A conference call will be scheduled with the audit committee upon Mr. Collins return.
- 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 September 2009 meeting and the agenda for the December 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 September 30, 2009 and December 31, 2009.
- G. Continuing Professional Education – Ms. Kinsella indicated she attended the semi-annual conference sponsored by the Association of Public Pension Fund Auditors in Sacramento, CA. This conference provided 19.5 continuing professional education credits..

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

The meeting adjourned at 11:00 a.m.