

MEMORANDUM

TO: Audit Committee
Jon Strinden
Ron Leingang

FROM: Jamie Kinsella, Internal Auditor

DATE: March 18, 2005

SUBJECT: **January 11, 2005 Audit Committee Meeting**

In Attendance:

Jon Strinden via conference call
Ron Leingang
Sparb Collins
Jamie Kinsella
Shelly Stuber

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

I. August 11, 2004 Audit Committee Minutes

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

II. Goals and Objectives Project Update

The updated goals and objectives report on the activities that occurred during the last quarter in the internal audit division was included with the audit committee materials.

III. Administrative

- A. 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. A copy of the report was included with the audit committee materials. Mr. Collins inquired if this included any recent recommendations. Ms. Kinsella explained that Eide Bailly's recommendations and any from internal audits for 2004 would be included on the next report. All findings will remain on the report until they reach 100% completion.
- B. Reporting to Board and Senior Management – This item is to address reporting the internal audit activities to the audit committee and to ensure it is meeting the Internal Auditors' International Standards as set forth. Internal audit has been providing a quarterly report with updates regarding internal audit's goals and objectives related to the

organization's strategic plan. This report is somewhat general in nature. Internal audit also provides a quarterly report summarizing previous findings and their status. Ms. Kinsella indicated she has learned that several other public pension funds provide copies of full audit reports to the audit committee, in addition to their internal audit plan summary/status report and quarterly findings status report. Some funds just provide a quarterly summary status report that reports specifically on what is in their audit plan and a quarterly findings status report. Ms. Kinsella conveyed in the past staff has not provided the audit committee copies of the audit reports unless it was an audit on a vendor. Attached were copies of audit reports for the audit committee's information as well as a summary status report example. Ms. Kinsella inquired if the audit committee would like to start receiving a full audit report and a summary status report, or would they prefer to receive only the summary status report. Mr. Strinden inquired if the other funds report one way more than the other. Ms. Kinsella indicated that it was about equal. The audit committee recommended that staff not provide a full audit report but that page 1 of the quarterly status report would be used to report the status of audits and projects.

- C. Position Reclassification Update – The Internal Audit III reclassification request was reviewed and approved by Human Resource Management. The Internal Audit III position is now classified as an Auditor IV. There is no change to the salary with this reclassification.
- D. Audit Committee Checklist Project – Included with the audit committee materials was a copy of the updated Audit Committee checklist that was sent to the audit committee for review. Most of the items not checked completed are included in the revised audit committee charter which was included with the agenda.
- E. Audit Committee Charter Revision Project – Included with the audit committee materials was the Audit Committee Charter Revision Project checklist along with a proposed revised Audit Committee Charter. Most of the items on the checklist are included in the new revised audit committee charter for the audit committee's approval. Mr. Collins will be providing a copy of the proposed audit committee charter with his comments on it and will review this at the February meeting.
- F. Conflict of Interest Policy Review – The audit committee requested a review of the conflict of interest policy at the last meeting and requested that it be on the next agenda for review. Ms. Kinsella indicated she began reviewing the current policy and requested information on this issue from other sources which she presented to the audit committee. Discussion followed. Ms. Kinsella will draft a memo regarding the conflict of interest issue to Ms. Kathy Allen. Staff will get back to the audit committee with information regarding PERS policy. Ms. Kinsella will review the ethics policy at a later date when APPFA has their final product.
- G. Special Projects – Included with the audit committee materials was an update of the special projects the internal audit division has been working on since June.
- H. Functions Risk Assessment Example – A copy of the questionnaire used to assess risk for each manager's areas of responsibility was included with the audit committee materials along with the worksheet use to analyze the results. This questionnaire was developed to assist management's evaluation of different functions in their area with minimal time required to complete. The results of the questionnaire were entered into a worksheet to determine the total score based on a weighted system. Those functions that scored higher than 2.5 were discussed with the managers to determine their concerns in those areas.

This information was used to consider whether the risk was high enough to merit including in the 2005 annual audit plan.

- I. Internal Audit Plan for 2005 – Included with the audit committee materials was a copy of the Internal Audit Plan for 2005 calendar year. The audit committee approved the plan. Mr. Strinden will sign and return to PERS for Ms. Kinsella to sign.

IV. Miscellaneous

- A. 2005 Audit Committee Meeting Dates and Time – The proposed dates for the 2005 audit committee meetings were included with the audit committee materials. The audit committee approved the proposed dates for the 2005 meetings.
- B. Eide Bailly Update – Eide Bailly LLP presented their audit report to the audit committee on December 15. The report will also be presented to the Board on January 20, 2005.
- C. CPE: IIA Designing and Evaluating Internal Controls and APPFA Conference – Included with the audit committee materials was an update on the continuing education the internal audit division staff attended this last quarter.
- D. Publications – Tone at the Top – The most recent copies of the publication were included with the audit committee materials.
- E. Public Pension Funds Chief Audit Executive Salary Survey – Included with the audit committee materials for information was a survey conducted by the MOSERS Internal Auditor regarding Chief Audit Executive's salaries.

The meeting adjourned at 2:15 p.m.