

## MEMORANDUM

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

**FROM:** Jamie Kinsella, Internal Auditor

**DATE:** May 23, 2007

**SUBJECT:** **February 21, 2007 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 10:34 a.m.

**I. December 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.
- 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 no progress was made during this period. The primary reason for this is the Business Replacement Project, which took up much of staff's time.

### III. Administrative

- A. Update on Group Insurance Staffing Status – Ms. Kinsella provided an update on the Group Insurance staffing status since the last Audit Committee meeting. Discussion followed.
- B. Internal Audit Plan for 2007 – Ms. Kinsella conveyed because of the time involved in the Group Insurance Division, she had not been able to develop an Internal Audit Plan for 2007. Ms. Kinsella indicated she hoped to have a plan developed by the next Audit Committee meeting in May for the latter half of the calendar year.
- C. Pharmacy Benefits Manager (PBM) Project – Mr. Collins provided an update on the situation with this project.

### IV. Miscellaneous

- A. Audit Committee Meeting - The next Audit Committee meeting will be held on May 23, 2007 at 10:30am in the NDPERS Conference room, Wells Fargo Bank Building.
- B. FlexComp PeopleSoft – The NDPERS FlexComp Program uses the PeopleSoft software for administration of the FlexComp plan. Staff has experienced issues with the recent upgrade. Discussion followed. Ms. Schiermeister will provide an update at the next Audit Committee meeting.
- D. Publications – A copy of “The Role of Auditing in Public Sector Governance” was included with the Audit Committee materials for information only.
- E. Annual Performance Evaluation – Mr. Collins inquired how the Audit Committee wanted to handle Ms. Kinsella’s performance evaluation. Mr. Strinden and the Audit Committee members concurred to do the same as in the past. Mr. Collins will compile the information for their review.

The meeting adjourned at 11:15 a.m.

## MEMORANDUM

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

**FROM:** Jamie Kinsella, Internal Auditor

**DATE:** August 24, 2007

**SUBJECT:** **May 23, 2007 Audit Committee Meeting**

In Attendance:

Jon Strinden via conference call  
Ron Leingang  
Rebecca Dorwart  
Jamie Kinsella  
Sharon Schiermeister  
Leon Heick  
Larry Brooks, BCBS, via conference call  
Kelly Anderson, BCBS, via conference call  
Dave Arntson, BCBS, via conference call

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

**I. February 21, 2007 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.
- 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 one recommendation is 100% completed, and progress made on five others. The remaining ten recommendations have no change. Discussion followed. Internal audit staff will review recommendations

with management to determine if the old ones are still applicable, and to reprioritize them. Also, staff will follow up with Brady Martz on external audit recommendations to determine if they should remain.

### **III. Administrative**

- A. Update on Group Insurance Staffing Status – Ms. Kinsella provided an update on the Group Insurance staffing status since the last Audit Committee meeting. Discussion followed.
- B. Internal Audit Plan for 2007 – Ms. Kinsella conveyed because of the time involved in the Group Insurance Division, she had not been able to develop an Internal Audit Plan for 2007. Ms. Kinsella indicated she hoped to have a plan developed by the next Audit Committee meeting in August for the remainder of the calendar year.
- C. Performance Evaluation – Mr. Collins informed Ms. Kinsella that the audit committee was reviewing her performance evaluation and that it should be completed soon.
- D. Goals & Objectives – Included with the audit committee materials was an updated copy of the internal audit's goals and objectives that was included in the business plans provided at the board meeting. After discussion with other internal audit directors at the APPFA conference, Ms. Kinsella indicated she made a few changes based on their recommendations. These changes were incorporated into the main business plan document.

### **IV. Miscellaneous**

- A. Pharmacy Benefits Manager (PBM) Project – Larry Brooks, Consulting Service Manager from Blue Cross Blue Shield (BCBS), Kelly Anderson and Dave Arntson, Internal Auditors from BCBS joined the meeting via conference call. Mr. Brooks reviewed a draft memo to NDPERS outlining the prescription drug rebate process with NDPERS. Ms. Anderson provided input on her audit process. Discussion followed. This item will be on the August agenda to obtain additional information.
- B. Audit Committee Meeting - The next Audit Committee meeting will be held on August 22, 2007 at 10:30am in the NDPERS Conference room, Wells Fargo Bank Building.
- C. Publications – A copy of the May 2007 Institute of Internal Auditors Tone at the Top publication was included for information only.
- C. Continuing Professional Education – Ms. Kinsella and Mr. Heick, Internal Audit staff, attended a seminar on April 30 and May 1. The seminar's topic was "Using Risk Assessment to Build Individual Audit Programs". This seminar provided 15 continuing professional education credits. Ms. Kinsella also

attended the APPFA Professional Development Conference in Manchester, NH on May 6-9, 2007. This conference provided 17.5 continuing professional education credits.

- D. Brady Martz & Associates – Ms. Kinsella conveyed she spoke to Pat Brown from Brady Martz & Associates and he indicated they would be meeting this week to discuss their plan of action. He will get back to Ms. Kinsella once they have a better idea of what they will do. Ms. Kinsella indicated she hoped to have them in the PERS office in June for the preliminary work.
  
- E. Confidential Meeting Between the Audit Committee and Internal Audit Manager – The meeting between the audit committee and the internal audit division is scheduled to take place in February of each year. However, the meeting was not held in February and was rescheduled for the May meeting.

The meeting adjourned at 11:50 a.m.

## MEMORANDUM

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

**FROM:** Jamie Kinsella, Internal Auditor

**DATE:** November 27, 2007

**SUBJECT:** **August 22, 2007 Audit Committee Meeting**

In Attendance:  
Ron Leingang  
Rebecca Dorwart  
Jamie Kinsella  
Sharon Schiermeister  
Sparb Collins

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

### **I. May 23, 2007 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 revised the report to provide more information for the audit committee, as well as make it easier for the internal auditors to update.
- 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. It was requested at the last audit committee meeting that management review the report with the external auditors to determine if each recommendation was still valid, and should remain on the report. Ms. Kinsella and Ms. Schiermeister met with Mr. Pat Brown, Brady Martz, in June to review this report. A total of five recommendations were removed from the report. The other 11 recommendations remained on the report as it was felt they were importation to NDPERS operations and should be completed.

There were six new recommendations added from the IT risk assessment review conducted earlier this year even though some of them have been implemented already. This is to show what issues were found and the action that has been taken to date.

A review of the final updated report shows a total of 17 recommendations of which five were 100% implemented this quarter and progress was made on one. This leaves a total of 12 remaining recommendations for staff to work on.

### III. Administrative

- A. Internal Audit Plan for 2007 – Included with the audit committee materials was the Internal Audit Plan for the remainder of 2007. Mr. Leingang approved the Internal Audit Plan for the remainder of 2007. Ms. Dorwart seconded the motion.
- B. Audit Committee Self-Assessment Questionnaire – Included with the audit committee materials was a self-assessment questionnaire for the audit committee to complete. It is recommended to have the audit committee conduct a self-assessment on their business practice. This questionnaire should be reviewed on an annual basis. The last one was conducted in 2004. Ms. Kinsella requested this questionnaire to be filled out and returned to her by September 30. By general consensus the audit committee approved the questionnaire. However, the committee requested staff to review the last questionnaire results and send a list of the questions that were not applicable.
- C. Audit Committee Meeting - The next Audit Committee meeting will be held on November 21, 2007 at 10:30am in the NDPERS Conference room, Wells Fargo Bank Building.

### IV. Miscellaneous

- A. Update on NDPERS Staffing Status – Included with the audit committee materials was an update on the status of the new staff positions which were approved by the legislature.
- B. Update on the Group Insurance Staffing Status - An update was provided to the audit committee on the group insurance staffing status since the last audit committee meeting.
- C. Pharmacy Benefits Manager (PBM) Project – An email from Larry Brooks, Blue Cross Blue Shield (BCBS) was included with the audit committee materials. Mr. Collins indicated that BCBS is still not willing to provide information. It was recommended that staff draft a letter stating NDPERS felt they should have access to this information and request their response by the next audit committee meeting. Discussion followed.
- D. Mainframe Migration – Included with the audit committee materials was an explanation from Mr. Ron Gilliam, IT Coordinator, regarding the decision to not participate in Phase 2 of the mainframe migrations project.
- E. LASR Project Status – Ms. Deb Knudsen provided an update on LASR project status.
- F. Joint Audit Efforts with Retirement & Investment Office – It was suggested by the

audit committee that staff explore whether there could be some efficiency achieved by sharing staff with RIO to create more specialization and efficiency. Ms. Kinsella conveyed she discussed this with Mr. Les Mason, RIO, and Mr. Collins. All of the audits conducted by RIO are employer or TFFR related audits. They do not conduct any financial audits. NDPERS does not do employer audits and allocates its resources to financial and program audits in addition to special projects. Both RIO and NDPERS conduct actuarial testing for the external auditors. This is done over the summer, verifying the sample selected by the external auditors.

Based upon the above analysis, there is little overlap in the types of audits conducted by the two entities. It would appear that due to the differing approaches the two staffs are already specializing in their respective areas. Therefore, it would appear that at this point in time the opportunities for sharing staff are limited. However, should NDPERS start doing employer audits or should RIO start doing more financial audits this should be reviewed again since more opportunities may then be available.

- G. Brady Martz & Associates – Brady Martz’s audit staff was in the office the week of June 25 to conduct their preliminary audit work. It was discussed and decided that since the internal auditors did not have any audit work for their review, staff would assist with their field work. This consisted of sending out confirmation letters to the sample the auditors selected and testing the benefit data. The information technology auditor was in the NDPERS office on August 7, 2007 to conduct an audit on the information technology division in the office. Brady Martz & Associates are scheduled to return to NDPERS on August 27 and plan to complete their field work by September 7.

The meeting adjourned at 11:25 a.m.

## MEMORANDUM

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

**FROM:** Jamie Kinsella, Internal Auditor

**DATE:** November 27, 2007

**SUBJECT:** **November 21, 2007 Audit Committee Meeting**

In Attendance:

Jon Strinden, via conference call  
Ron Leingang  
Rebecca Dorwart  
Jamie Kinsella  
Sharon Schiermeister  
Sparb Collins  
Pat Brown, Brady Martz  
John Schell, Brady Martz  
John Mongeon, Brady Martz  
Aaron Webb, Attorney General's Office

The meeting was called to order at 10:35 a.m.

**I. August 22, 2007 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 – Included with the audit committee minutes was the Internal Audit quarterly report which listed all of the projects that are in active status as of October 31, 2007.

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. The recommendations made by Brady Martz & Associates will be placed on the report once the final audit report is issued. A review of the report shows a total of twelve recommendations, of which none were 100% implemented this quarter, but progress was made on two.

### III. Administrative

- A. Audit Committee Self-Assessment Questionnaire – Included with the audit committee materials were the results of the self-assessment questionnaire the audit committee completed. Ms. Kinsella indicated she did not get a response from two of the committee members. In addition to the Yes/No/NA answers, each question was to be rated 1 to 5, or highly effective to not effective. Because the questionnaire was not revised prior to completing the questionnaire, this component was not filled in by the respondents. The audit committee may want to consider whether they would like to redo the questionnaire or leave it as it is for now and wait until next year. A review found the audit committee felt it is following most of the best practices. Of the 55 questions, 30 were answered yes, or 71%. However, there is room for improvement, one of which is helping the audit committee understand how they are meeting some of these requirements. Ms. Kinsella conveyed in this material she include the statements that had mixed responses, “No” response, or N/A. After each statement, there is a comment as to how she felt the audit committee was meeting the requirements or a proposed plan of action of which can be done to make sure the requirements are met. Discussion followed. The audit committee decided to eliminate this process, and only do the Charter Review Matrix annually.
- B. Audit Committee Charter Review Matrix – The Audit Committee charter was revised in June 2006, reflecting the best practices for audit committees at that time. The revised 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 require 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 the matrix.

There were few issues the audit committee needed to review and take action on. The first was regarding item #2 “the audit committee attempt to appoint committee members who are knowledgeable and experienced in financial materials, including the review of financial statements”. Mr. Strinden and Ms. Dorwart were appointed.

The second item regarding bullet #9 “Understand how management develops interim financial information, and the nature and extent of internal and external auditor involvement”. Since interim financial information is not prepared, discussion followed. The audit committee decided to query other public pension fund auditors and ask them if they follow this practice. If not, then the audit committee will determine if they want to eliminate this from the charter.

The third item discussed was risk assessment. The second bullet for item #10 states that the audit committee will “Periodically review that the organization has a comprehensive policy on risk management”. NDPERS does not have a formal risk assessment policy, but currently are following Risk Management’s guidelines for a Loss Control Committee, and putting together a Continuum of Government (COG) plan. The audit committee decided to have Internal Audit contact Risk Management to discuss whether a policy is needed, or if they have one that all state agencies should follow. In addition, if OMB has a policy NDPERS can make it a policy to follow OMB’s guidelines, much as it does for other policies, such as travel expenditures.

Finally, the last item under #13, ninth bullet states “Provide guidelines and mechanisms so that no member of the audit committee or organization staff shall improperly influence the auditors or the firm engaged to perform audit services.” The audit committee decided to have internal audit investigate further by discussing with the State Auditor’s Office and reviewing the RFP and contract with the current external auditors to determine if there is language regarding conflict of interest.

The last three items will be brought before the audit committee in February.

- C. NDPERS Risk Assessment Process - Included with the audit committee materials was an example of the risk assessment questionnaire that is given to the managers to fill out as part of their analysis of risk in their areas. Once management has filled out the questionnaire for each area for which they are responsible, Internal Audit reviews the responses and enter the data into a matrix by divisions to determine the level of risk as determined by a weighted formula. The previous matrix’s weighted scores are entered for comparison purposes. Another report is generated, sorting the weighted score is descending order for the Executive Director to review. The original report is shared with management to ensure the output reflects their opinions. Once management agrees with the report, and the future audits agreed upon, the Internal Audit Plan for 2008 is developed.
- D. Annual Audit Plan for 2008 – Included with the audit committee materials was a copy of the Annual Internal Audit Plan for 2008 for review and approval. After the audit projects are decided upon these will be incorporated into the audit plan document. The final copy will be signed by Mr. Strinden and Ms. Kinsella. The audit committee approved the Annual Audit Plan for 2008.
- E. Audit Committee Meeting Date & Time - Ms. Kinsella compiled a schedule of the proposed 2008 audit committee meeting dates and times. The audit committee approved the 2008 meeting schedule.
- F. Internal Audit I Reclassification – Ms. Kinsella informed the audit committee that Mr. Heick’s position was reclassified from a Audit I to an Auditor II effective September 1, 1007. This is a grade change from a Grade 9 to Grade 11.

#### IV. Miscellaneous

- A. Update on NDPERS Accounting Staff Status – Included with the audit committee materials was an update on the accounting staffing status since the last audit committee meeting.
- B. Report on Consultant Fees – According to the Audit Committee Charter, the Audit Committee should “periodically review a report of all costs 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, 2007. Ms. Kinsella indicated that at this time the fees paid to Brady Martz consist of financial statement audit fees only.
- C. Administrative Rule Changes - According to the Audit Committee Charter, the Audit Committee should “Monitor changes and proposed changes in laws, regulations and rules affecting the organization.” Administrative rule changes are provided to the board for their approval before putting out a notice of the hearing. Included with the audit committee materials was a report presented and approved by the board at the September 2007 meeting. The public hearing was held on November 21, 2007.
- D. Pharmacy Benefits Manager (PBM) Project – Attachments were provided to the audit committee, including BCBS’s letter from their attorney received the day before the audit committee meeting. Mr. Webb, Attorney General’s Office, was present at the meeting to provide information. Discussion followed. Mr. Webb explained that in order to obtain an Attorney General’s opinion of what BCBS documents NDPERS will keep confidential, that list must be a narrow, finite number of documents. Ms. Dorwart expressed concern over accepting the SAS 70, since there are two levels of reporting, one that is at a high level overview, and the second that is more in-depth. If we accept the SAS 70, and it is just a high level overview, then it will not provide enough information. The audit committee decided to draft a letter for an Attorney General’s opinion, and provide a report at the February meeting.
- E. LASR Project Status – The LASR project completed its Post-Implementation Report and submitted it to ITD at the end of Phase III of the LASR project. Ms. Kinsella conveyed staff has been very pleased with the results. Phase IV officially began on October 1, 2007. Ms. Schiermeister is the Project Manager for NDPERS. The Internal Audit Division will receive updates when Ms. Schiermeister updates the managers at the weekly manager’s meeting. There was a kickoff meeting on November 13, 2007 and a Development Methodology Overview will be conducted on November 26, 28 and December 4. This meeting will introduce to staff the methodology used to develop the software. It will also inform the staff what their role will be during this process. Ms. Schiermeister inquired how the audit committee would like to be kept informed of the project. By general consensus, the audit committee decided the same report to the Board presented at the next audit committee meeting is adequate.

- G. Brady Martz & Associates – Brady Martz presented their FY 2007 audit report to the audit committee. A copy of the audit report was included in the audit committee materials.

Brady Martz explained that they did not identify any deficiencies in internal control over financial reporting; however there were certain matters that were reported to NDPERS management. There was no audit adjustments proposed or made that had a material or significant impact on the financial statements. Finally Brady Martz explained that they had not come to a conclusion on how PERS should recognize the implicit subsidy for the retiree health credit, however, there has been an actuarial review and an actuarial figure has been provided, which is good for two years for GASB 45. Discussion followed. Ms. Dorwart asked if the auditors could prioritize the six items in the management letter. It was determined that items #2, 3 and 4 were higher risk than the others.

The meeting adjourned at 12:05 p.m.