

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.

MEMORANDUM

TO: Audit Committee
Jon Strinden
Arvy Smith
Rebecca Dorwart

FROM: Jamie Kinsella, Internal Auditor

DATE: August 23, 2010

SUBJECT: **March 12, 2010 Special Audit Committee Meeting**

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

The special meeting was called to order at 11:00 a.m. to discuss final average salaries and whether a bill should be submitted to address the irregular salaries that were found in an audit.

Staff provided an overview of what was found during the audit. There are employees in our system who are paid biweekly, resulting in 2 months per year of higher salaries. Also, temporary employees and employees who are hourly also have fluctuating salaries. Per Segal's email in response to our query regarding the effect of these salary spikes on the retirement system, a copy of which was provided to the audit committee, these atypical salaries "...increase the rate by 0.09... This increases the NC from 8.38 to 8.43. There's some leverage here, because it doesn't change the employee contributions. The whole .05 goes to increase the employer rate. Then it increases the AAL by a small percent but there is leverage again, so the UAAL goes up by 2.8%, which gives the other .04."

Internal audit staff conducted a survey of public pension funds of how final average salary is calculated in their systems and provided this information to the audit committee. A spreadsheet was also provided to the audit committee showing a representation of employees on our system and how different final average salary methods affect their final average salary.

The internal audit staff made the following recommendations internally:

- 1) Submit no changes for this session (continue research).
- 2) Propose changing final average salary calculations for all active and new members.
- 3) Propose changing final average salary calculation for new members only (current members will be under existing law).

- 4) Adjust contribution rate for specific employers.

Increasing the contribution rate is difficult given that PERS is submitting bills in 2011 to increase the rates for all employers.

Staff recommended deferring this issue for the 2011 session and studying the issue more thoroughly with the possible submission of a bill in 2013. Discussion followed.

ARVY MOVED TO STUDY FOR THE 2013 SESSION. BECKY SECONDED THE MOTION.

MOTION PASSED.

The meeting adjourned at 11:30 a.m.

MEMORANDUM

TO: Audit Committee
Jon Strinden
Ron Leingang

FROM: Jamie Kinsella, Internal Auditor

DATE: December 1, 2010

SUBJECT: **August 18, 2010 Audit Committee Meeting**

In Attendance:

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

Absent:

Sharon Schiermeister

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

I. February 17, 2010 and March 12, 2010 Audit Committee Minutes

Ms. Smith moved to approve both of the audit committee meeting minutes presented. Ms. Dorwart seconded the motion.

II. Internal Audit Quarterly Report

- A. Quarterly Audit Plan Status Report – Included with the audit committee minutes was the quarterly audit plan status report as of April 30, 2010. An update through July 31 was not necessary as nothing has changed. Ms. Kinsella conveyed the internal audit staff is spending the bulk of their time working with the PERSLink Project Team assisting with the projects they need help with. She indicated they are working on testing software, data conversion and correspondence. Staff will continue to do the required work that needs to be done in internal audit. For now the focus in internal audit is the Defined Contribution Refund Audit, Flex Comp Grace Period Audit, Pharmacy Benefit Manager Audit Project, and Mini Journal review. In the Defined Contribution audit a refund error was found in 2002 and 2009. There are procedures now in place to prevent this type of error from occurring. The error from 2009 was found to be human error.
- 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 April 30, 2010, 1 recommendation was completed, and no change on 1 recommendation. No change through July 31 due to the PERSLink project.

- C. Audit Charter Review Matrix – Since staff reviewed the Audit Committee charter last February, Ms. Kinsella conveyed she did the same thing for the Internal Audit Charter. Attached was a copy of the matrix for the audit committee to review. Ms. Kinsella indicated she did not find anything that needed revision at this time.

III. Administrative

- A. Audit Committee Meeting Date & Time – The next audit committee meeting is scheduled for November 17, 2010.
- B. Performance Evaluation – Ms. Kinsella's performance evaluation was completed in June.
- C. 2011-2013 Internal Audit Budget Request – Included with the audit committee materials was a copy of the budget request memo staff submitted for the accounting division to consider for the internal audit division as they prepare for the 2011-2013 budget.

IV. Miscellaneous

- A. Brady Martz & Associates - Brady Martz was in the PERS office June 25-29 for their preliminary work, as well as August 5, 6 and 9 for continuing with testing of data. They were in the PERS office on August 17 for the IT audit. They will return August 23 through September 3 for their field work and wrap up. They will continue to work on the audit report through October 2010.
- B. Pharmacy Benefits Manager (PBM) Project – TriCast has presented PERS and Prime Therapeutics with a preliminary draft audit report which will be finalized this month. Ms. Kinsella conveyed she will see if Sara from TriCast could present the report at the next audit committee meeting.
- C. Travel Expenditures – Included with the audit committee materials were copies of the travel expenditures for the quarters ending April 30, 2010 and July 31, 2010. Discussion followed on whether or not the audit committee wanted to include all in-state travel on this report also. By general consensus, the audit committee recommended to include out of state travel only on the travel expenditure report.
- D. Risk Management Report – At a previous 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. Included with the audit committee materials was a copy of the approved meeting minutes from the December 2, 2009 meeting, March 11, 2010 meeting and the agenda for the June 2010 meeting. Deb Knudsen, who oversees the Loss Control Committee,

presented an overview of the committee's activities from the past year. Discussion followed.

- E. PERSLink Quarterly Report – Included with the audit committee minutes were the PERSLink quarterly status reports. NDPERS is required to file this report with ITD throughout the duration of the system replacement project. The go live date is scheduled for October 4, 2010. Discussion followed.
- 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 were copies of the reports showing the consulting, investment and administrative fees paid during the quarters ended March 31, 2010 and June 30, 2010.
- G. Continuing Professional Education – Ms. Kinsella indicated she attended a seminar sponsored by the local IIA Central NoDak Chapter. Ms. Kinsella conveyed she received 15 CPE credits for attending this seminar..
- 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.

MEMORANDUM

TO: Audit Committee
Jon Strinden
Ron Leingang

FROM: Jamie Kinsella, Internal Auditor

DATE: February 28, 2011

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

In Attendance:

Jon Strinden, via conference call
Arvy Smith
Rebecca Dorwart
Jamie Kinsella
Leon Heick
Sparb Collins
Deb Knudsen
Sharon Schiermeister
John Mongeon, Brady Martz
Robyn Goven, Brady Martz
Sara Herbert, TriCast Inc., via conference call

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

I. August 18, 2010 Audit Committee Minutes

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

II. Internal Audit Quarterly Report

- A. Quarterly Audit Plan Status Report –There is no report provided this time as there were no changes to report. Staff is spending the bulk of their time working with the PERSLink project team assisting with projects they need help with. Staff was working on testing software, data conversion, training employers and correspondence since August and up to PERSLink go-live October 4, 2010. Since go live, staff has continued to support staff with various projects that are considered high priority. Discussion followed regarding internal audit independence.
- 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. A report was not provided this time as there is no change from the previous meeting.

- C. Internal Audit Plan for 2011 – Included in the audit committee minutes was an excerpt from the 2010-2011 audit plan. Since the new PERSLink system was implemented, the next year will focus primarily on the new system, to ensure that data going in, and coming out, is accurate. Thus staff will continue to test components that need testing, train staff or employers where needed when staff finds there is an issue, audit the process documentation on PERSLink to determine adequacy, and audit the data for accuracy. Staff will continue to work with management to determine areas they deem to be at high risk to develop audit plans.

III. Administrative

- A. Audit Committee Meeting Date & Time – A schedule of tentative audit committee meetings for 2011 was included in the audit committee materials. Ms. Kinsella will send a revised schedule out to audit committee members since there were conflicts on the proposed dates.

IV. Miscellaneous

- A. Brady Martz & Associates – John Mongeon and Robyn Goven, Brady Martz & Associates, presented the 2010 audit report.
- B. Pharmacy Benefits Manager (PBM) Project – Sara Herbert from TriCast Inc. joined the meeting via conference call and presented their audit report on PrimeCare, the pharmacy benefits manager. Discussion followed.
- C. Travel Expenditures – Included with the audit committee materials were copies of the travel expenditures for travel through October 31, 2010. Discussion followed on including airfare in the report. By general consensus, the audit committee recommended to include the cost of airfare in the worksheet.
- D. Risk Management Report – At a previous 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. Included with the audit committee materials was a copy of the approved meeting minutes from the June 10, 2010 meeting and the agenda for the September 9, 2010 meeting. Discussion followed.
- E. PERSLink Quarterly Report – Included with the audit committee minutes were the PERSLink quarterly status reports that were presented to the board since the last audit committee meeting. These reports were presented to the Board at the August and September board meetings. Ms. Schiermeister provided an recap of recent events since the go live date. Discussion followed.
- 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.” Staff was unable to give a report since the accounting staff did not provide a report to the Board at the end of the last quarter due to the time involved with implementation of the new PERSLink system.

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

The meeting adjourned at 11:40 a.m.