

Minutes
The Arkansas Local Police and Fire Retirement System (LOPFI)
Audit Committee Meeting

The Audit Committee of the Arkansas Local Police and Fire Retirement System met on Thursday, May 15, 2014, in the LOPFI office located at 620 W. 3rd, Suite 200, Little Rock, Arkansas.

Members Present: Terry Henson, Fire Employee Trustee, Chairman
John Neal, Retired Fire Trustee
Bev Lambert, Public Trustee

Staff Present: David Clark, Executive Director
Robert Bartholmey, Chief Financial Officer
Crystal Holsted, Recording Secretary to the Committee

Chairman Henson called the meeting to order at 9:14 a.m. and recognized a quorum and notification of news media.

Andy Richards, BKD CPAs & Advisors, auditor for the Board, presented the auditor's report and financial statements for year ended December 31, 2013. Mr. Richards stated that BKD provides a risk-based audit, tailored by the answers to staff questionnaires. Included in the general audit were a review of daily internal operations, checks and balances and IT security to make sure the system is efficient and accurate.

Benefit Payments: one (1) benefit payment was found to be a historical data entry error; not a calculation error. Mr. Clark stated that once the error was found, the system contacted the benefit recipient, who has agreed to work with the system to pay back the small amount of overpayment(s). What is helpful is the data processing system provided by Tegrit has mitigated the risk of common data entry errors. Mr. Clark stated that the system plans on leveraging further functionality with Tegrit to be more efficient and further reduce the risk of errors.

Contributions: confirmations were sent to a small sample of employers. Reconciliations were completed between LOPFI and employers, which provided good results, confirming the accuracy of the online reporting process.

Custodial Credit Risk: an inherit risk was found with the value of private equity investments. This was caused due to the lag in the timing of valuations; however, it is not a significant material finding. Mr. Clark stated that BKD has provided a high-level audit of the system's investments and has established a good working relationship with LOPFI's Investment Monitor, Thistle Asset Consulting.

Financial Statements: presentation changes only, since securities lending collateral cannot be sold or pledged it was removed from the financial statements. There was no effect to the net assets held in trust, since the assets and liability equal a net zero.

Internal Controls: lower level control deficiencies were found in the accounting personnel segregation of duties, which is a common finding in smaller staffed companies i.e. those with a limited number of staff. This finding is adequate due to LOPFI's control procedures.

Schedule of Funding Progress: year ended December 31, 2013, the funded ratio of the entire LOPFI portfolio, which includes consolidated Local Plans increased from 65% to 67%. Even after

absorbing the unfunded consolidated Local Plans the combined funded ratio continues to rise. The LOPFI-only funded ratio increased from 71% to 74%.

Mr. Neal asked if LOPFI's checks and balances were above par. Mr. Richards stated that compared to his client base, he would rate LOPFI average. Mr. Henson asked if our system is meeting the pension industry standards. Mr. Richards stated yes and offered a suggestion that the CFO should complete review processes rather than the performing the entry processes.

GASB financial statement reporting changes: the next audit will be different due to the upcoming changes in accounting standards. Since LOPFI is a cost-sharing plan, employers will have to report their portion of the blended pension cost on their financial statements. Additionally, we will need to look at how the liability is computed for employers (census data, contributions, and classes) so that we can provide accurate information. It is important to note that the changes will effect how the financials are reported, not the manner in which the system is funded. The changes will produce a higher liability for those employer groups who have Local Plans under LOPFI administration. Chairman Henson stated that more work for staff and actuaries will be created with the GASB changes. The Board does not want staff to be overtaxed, if we need to add more staff, please propose the addition(s) to the Board. Mr. Clark stated that he does not anticipate additional staff will be needed in preparation for the changes; however, technological updates will likely be needed and we plan to approach the Board with proposals. Mr. Bartholmey stated that the audit findings have been very helpful to staff. The Committee agreed, BKD was comprehensive and established a good working relationship with staff to make the system as transparent as possible.

Mr. Lambert made a motion, seconded by Mr. Neal to accept the 2013 LOPFI audit. The motion passed unanimously.

With no other business to discuss, Mr. Lambert made a motion, seconded by Mr. Neal to adjourn. The motion passed unanimously. The Committee adjourned at 10:22 a.m.

Respectfully submitted,

Approved 06/05/14

Crystal Holsted
Recording Secretary to the Committee