

**Retirement & Investment Office (RIO) Special Purpose Audit  
Testimony before the Legislative Audit & Fiscal Review Committee  
Presented by: Cindy Ternes, State Investment Board (SIB) Audit Committee  
Member  
May 12, 2010**

Mr. Chairman, Members of the Committee:

My name is Cindy Ternes and I am a member of the SIB Audit Committee. I am here on behalf of the SIB to provide information regarding the Special Purpose Audit RFP issued by the Office of Management and Budget at the request of the SIB Audit Committee, as directed by the SIB at the April 23<sup>rd</sup>, 2010 meeting.

The SIB was advised by its investment consultant, Callan Associates, to have an independent audit conducted for the benefit of all interested outside parties. As Callan suggested, this is a useful and conventional exercise whenever there is a change in an organization's senior management structure.

The RIO will have their annual financial audit for Fiscal Year 2010 beginning in June or July, under the oversight of the State Auditor's Office. The SIB does not want to duplicate the efforts that will be made in the annual financial audit.

I have given you Sections 1- 3 of the RFP issued for the special purpose audit. I have full copies of the RFP available upon request. These three sections contain the "meat" of the RFP. You can see the intent on the top of Page 4, **Section 1.01. Purpose of the RFP**. The purpose is to verify the assets and controls of the program due to a change in management.

About mid-page, under **Section 1.03** is the **RFP Schedule**. You can see this is a rather aggressive schedule with the RFP being issued on April 30<sup>th</sup> and deadline to receive proposals being next week. The current goal is to award a contract by approximately

May 18<sup>th</sup> and for the contract work to begin in late May. The RFP was issued to approximately thirteen vendors and a copy of these vendors is available upon request.

**Section 3.01, Scope of Work** is outlined on page seven. The RFP requests examination of those specific areas that could be affected by management or that could affect fund stability. The scope's time frame is from July 1, 2009 through April 30, 2010. It is thought that a review from January 2010 through April 2010 may prove sufficient, but we did not want to limit the scope too much, so the time line was set back to the completion date of the last financial audit. The RFP allows this scope to be expanded or altered at the recommendation of the Contractor with written approval of the SIB.

The scope includes the following:

- Verify the assets and controls of the program
- Determine scope of CEO/CIO's sphere of influence and access to the books and records of RIO
- Identify areas of exclusive fund/transaction access and activities
- Identify and quantify any irregular financial activity or discrepancies within past management or the investment funds
- Examine electronic information – emails, documentation, and hard drives, as determined necessary.

Toward the bottom of page seven is the list of deliverables, including a progress report of preliminary findings by June 25<sup>th</sup>, and a final written report delivered no later than July 14<sup>th</sup>, 2010.

The SIB did set independence parameters as stated on page eight, under **Section 3.02, Experience and Qualifications** under the sub-section of **Mandatory Requirements**. The first bullet requires "the contractor and any individuals that will perform work on the project, including any subcontractors, must be completely independent, without conflicts, and free from preconceived notions about RIO. The Contractor must certify that neither the firm nor any of the individuals, including any subcontractors, who will

perform work on this project, have performed any work for or related to RIO within the previous two years." It is unfortunate this excludes the two larger local firms with the required expertise from bidding on this RFP. This may require hiring an out-of-state firm. However, it is very important to the SIB that this audit be conducted fairly and without bias, either real or perceived, to provide the greatest assurance possible to all outside interested parties.

This concludes my testimony. I would be happy to answer any questions at this time.