

February 10, 2010

To: Members of the Board of Retirement

From: Donald R. White, Chair

Subject: Summary of the February 10, 2010 Audit Committee Meeting

Audit Committee Chair Donald White called the February 10, 2010 Audit Committee Meeting to order at 1:04 p.m. The Committee members present were Vice-Chair George Wood, Dale Amaral, and Keith Carson. Other Board members present were Annette Cain-Darnes, George Dewey, Elizabeth Rogers, and Alternate Members Darryl Walker and David Safer. Members of the Staff present were Charles Conrad, Chief Executive Officer; Robert Gaumer, Chief Counsel; Harsh Jadhav, Internal Auditor; Rose Kwong, Benefits Manager; J.P. Singh, Chief Financial Officer; Betty Tse, Chief Investment Officer; Catherine Walker, Assistant Chief Executive Officer; and Latrena Walker, Project & Information Services Manager.

ACTION ITEMS

1. Review, Discussion, and Possible Motion to adopt the revised Audit Committee Charter.

Staff presented the modified Audit Committee Charter, which combined external and internal audit responsibilities; there were no other substantial changes made to the original charter.

MOTION:

It was moved by Trustee Elizabeth Rogers, and seconded by Trustee George Wood that the Committee recommends to the Board of Retirement that the Board adopt the Audit Committee Charter with the recommended revisions. The motion carried.

2. Review, Discussion, and Possible Motion to adopt the Internal Audit Charter.

Staff proposed the Internal Audit Charter, which defines the roles and responsibilities of the Internal Audit Department, including the mission and scope of work, accountability, level of independence, key responsibilities, authority to access confidential documents, and the standards of practice.

Trustee Annette Cain-Darnes asked if the Internal Auditor would provide a report to the Chief Executive Officer and the Audit Committee of the Board simultaneously. She specifically requested that staff review the language in the section on **Independence**, where the use of the words “functionally report to the Board of Retirement” was unclear. Trustee

Elizabeth Rogers, Supervisor Keith Carson, and Chairman Donald White agreed that the language needed to be changed.

Staff explained that there needs to be a separation between “personnel oversight and budget” vs. the “Audit Committee role” and that the Internal Auditor must report both to the Audit Committee and the Chief Executive Officer.

Staff suggested alternative language which was accepted by the Audit Committee.

Original Text: “To provide for the independence of the Office of Internal Audit, its personnel report administratively to the Chief Executive Officer (CEO) and/or their assigned staff, and functionally to the Board of Retirement, and their respective Audit Committee, in a manner outlined in the above section on Accountability.”

New Proposed Text: “To ensure the independence of the Office of the Internal Audit, its personnel report administratively to the Chief Executive Officer (CEO), and all audit results to the Board of Retirement and their respective Audit Committee, in a manner outlined in the Accountability Section.”

MOTION:

Trustee Dale Amaral moved and Trustee George Wood seconded the motion that the Audit Committee recommend to the Board of Retirement that the Board adopt the Internal Audit Charter, with revisions as recommended by Staff. The motion carried.

3. 2010 External Audit Work Plan

A Presentation of the 2010 Audit Work Plan for the Financial Statements ending December 31, 2009

Staff introduced Robert Griffin, Managing Partner and Audrey Elbert, Senior Manager from Williams Adley & Co. LLP (WACO).

Robert Griffin stated that Ms. Charbet Duckett (not present), Concurring Partner would be responsible for consultation and review for compliance with professional standards. He then discussed WACO’s responsibilities and the Audit Committee’s role. He also reviewed the audit plan and its components. Audrey Elbert then identified the risk areas and explained their audit approach in detail.

The audit timeline was discussed and it was mentioned that the planning and client assistance requirement process has been ongoing during January and February of 2009. Audit fieldwork is scheduled to begin mid-February 2009. The presentation of the draft auditor’s report and opinion of the Financial Statements for the year ended December 31, 2009 will be presented to the Audit Committee on May 19, 2010. If there are any

management letter comments, it is expected that they would be presented to the Audit Committee in June or July.

B Review, Discussion, and Possible Motion to approve the External Audit Scope of Work and Timeline of services performed by the external financial audit firm.

MOTION:

After a brief discussion Trustee Keith Carson moved and Trustee George Wood seconded his motion that the Audit Committee recommend to the Board of Retirement that the Board approve the External Audit Scope of Work and Timeline of services to be performed by Williams Adley & Co. LLP. The motion carried.

INFORMATION ITEMS:

1. 2010 Audit Committee Work Plan (Proposed)

Staff presented the proposed 2010 Audit Committee Work Plan.

2. Review of Annual Risk Assessment, and Presentation of the 2010 Internal Audit Work Plan (Proposed)

Staff presented the Internal Annual Audit Plan proposed for 2010 beginning with the **Internal Audit Approach** and how it differs from the External Audit Approach. The objective is to start with challenging the data integrity at the systems level to ensure that the input data is correct. This process will take more than a year to reach the level of comfort expected. Following **Data Integrity Validation**, the next step will be **Process Optimization** where the organization can start focusing on converting manual processes and redundant tasks into system dependent automated processes. This will enable ACERA to move closer to relying on a single system of record. Ultimately each department will be able to perform their own **Self-Assessment**.

Trustee Annette Cain-Darnes expressed her concern about how this process would occur, to which our Internal Auditor Harsh Jadhav explained that Managers will own the controls and the Internal Auditor would test those controls. The Internal Audit Department will provide Management with the necessary tools for them to perform their self-assessment and produce all the necessary reports (exceptions reports) in a continuous audit process rather than relying on the Annual External Audit. This will allow the organization to uncover issues much sooner and solve them at an earlier stage. It will also help lower the overall enterprise risk level.

With regards to the Risk Assessment Process, ACERA has adopted best practices based on the Association of Public Pension Fund Auditors, Inc. (APPFA) guidelines that are specific to public funds. Staff explained the process to identify the top risks by department, and how risks were ranked in two categories (likelihood of occurrence and magnitude of risk).

Staff then presented the few Audit Plan Recommendations, including validating the input into the actuarial process, vendor monitoring and contract compliance, reviewing the SAS 70 report for outside fund managers, and review of the accounting and benefit processes.

Assistant Chief Executive Officer Catherine Walker pointed out that Executive Management wants Management to actively participate in creating “risk awareness” and proactively address discrepancies in data as they are found. Executive Management also supports the implementation of IT Audit Tools, including the implementation of an Ethics Hotline that will enable employees to report areas of concern and process improvement opportunities. The last initiative that will be set in motion is ACERA Policy Review.

Trustee David Safer also recommended that staff implement a process to verify whether the outside investment fund managers are complying with contract terms as set forth in their specific contracts. Staff will include this recommendation in the internal audit plan.

Staff then enumerated the deliverables to the Audit Committee:

1. Internal Audit Charter (delivered)
2. Formal Audit Plan
3. Quarterly Progress Reports
4. Formal Audit Report and Remediation Plans
5. Public Pension fund Risk Awareness Updates

TRUSTEE/PUBLIC INPUT

None

FUTURE DISCUSSION ITEMS

External Audit

- Presentation of the December 31, 2009 Audited Financial Statements and possible motion recommending approval of this report.
- Management Discussion and Analysis

Internal Audit

- Progress Report on Internal Audit Work Plan
- New Internal Audit Initiatives

RECOMMENDATIONS

1. The Audit Committee recommends to the Board of Retirement that the Board adopt the Audit Committee Charter with the revisions, as recommended by Staff.

2. The Audit Committee recommends to the Board of Retirement that the Board adopt the Internal Audit Charter, with revisions as recommended by Staff.
3. The Audit Committee recommends to the Board of Retirement that the Board approve the External Audit Scope of Work and Timeline of services performed by Williams Adley & Co. LLP.

ESTABLISHMENT OF NEXT MEETING DATE

May 19, 2010 at 1:00 pm

MEETING ADJOURNED

The meeting adjourned at 2:23 pm