

DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM
AUDIT COMMITTEE MEETING
DOVER, DELAWARE
DECEMBER 21, 2005

ATTENDEES

AUDIT COMMITTEE

Robert Allen
Joel Poorman

PENSION OFFICE

David Craik
Alice Simon
Kathy Kunkle
Debbie Nicholson

MERCANTILE TRUST

Debi Kakaris
David Meyer
Matt Rockstroh
Joe Knisely
Cara Rubin

The primary purpose of the meeting was to review the status of the transition of Mercantile's accounting system to SunGard Asset Management. Additionally, the Audit Committee reviewed the "financial health" of Mercantile Safe-Deposit and Trust Company [Mercantile].

Accounting System Transition

On January 1, 2005, Mercantile converted to SunGard's accounting systems and outsourced much of its back office operations to SunGard. The system conversion and outsourcing were to create internal efficiencies and workflows that would allow Mercantile to focus more directly on their clients. Because of SunGard's leadership in this area, future efficiencies and capabilities were also anticipated.

However, the actual implementation was fraught with problems [e.g. no year-to-date reporting for the Master Trust; difficult to identify assets and their related income and gains/losses; postings of Limited Partnerships' gains/losses did not flow to appropriate schedules] In early September, a formal tracking system was started which identified problems, established priorities and risks, and established an expected completion date for each major component. As of our meeting [12/21], two items are to be completed by year end and two low priorities items are still open.

Debi Kakaris acknowledged that implementation of the new system has been "difficult" but believes we are now in a position to realize many of the advantages and efficiencies to be gained from SunGard. However, the Fund is basically behind by 12 months from what was anticipated.

Audit Coverage

There has been no change in Mercantile internal audit policies and procedures---e.g. an internal audit staff is dedicated to Individual Wealth Management Division, auditors report to General Auditor and Audit Committee of Board, auditors are CPA's or Certified Trust Auditors, and audits are conducted continuously over the course of the year. There has been a continuing shift to risk rating to improve the effectiveness of the coverage. Internal audit coverage of the Master Trust

includes both the posting of purchases and disbursements, as well as the calculation of the unit values. There are reviews of the wire disbursements, security trades, and cash reconciliations.

Mercantile's outside auditor is PricewaterhouseCoopers. Part of their program is a review of the internal audit coverage and programs in addition to their own testing of systems and review of procedures. The Maryland Banking Commission audits about every 12 to 14 months as well as the FDIC. These latter two audits tend to be more directed to policies and management structure.

Disaster Recovery

Mercantile's disaster recovery plan is designed to ensure continuity of data processing for its clients. The emphasis is on safeguarding information and restoring availability of critical data processing services within 36 hours. The plan is tested twice a year and uses SunGard's sites.

A business resumption plan addresses business recovery beyond data processing. This plan reviews which facilities are available after a "disaster" and allocates the work accordingly. Tests are run twice a month on this aspect.

Financial Health of Mercantile

Mercantile Bancshares Corporation has over \$16.4 Billion in assets with 11 community banks in Maryland, Northern Virginia, Washington DC and southern Pennsylvania. Mercantile Safe Deposit and Trust, the division associated with the Fund, represents 40% of total assets. Investment and Wealth Management has \$46.6 Billion under administration with \$20.8 Billion being institutional with no investment responsibility----the Fund is \$6 Billion of this total.

For the third quarter of 2005, net income was 20% over the same period of 2004 and 4.5% over the second quarter of 2005. Nine-month results for 2005 are 19% over 2004.

Global Custody Services

The Fund will issue a Request for Proposal [RFP] for the global custodian. Currently, the intent is to send invitations to six banks----Mercantile, Bank of New York, Northern Trust, Mellon, J P Morgan-Chase and State Street. The Attorney General's Office is reviewing to see if a broader invitation is required----e.g. notice in the newspaper.

The schedule is to issue the RFP by January 6, reply to questions/clarifications on January 31, receive bids by February 28, obtain Board approval on the recommended bank March 31 and announce the selection April 1 with the contract to start with the new fiscal year [7/1/06] Requirements for bidders are a minimum of five years experience with public pension funds in excess of \$5 Billion and experience with specialized plan accounting.

cc: Philip Reese
David Craik
Alice Simon
Audit Committee Members