

**DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM
AUDIT COMMITTEE MEETING APRIL 26, 2006
WILMINGTON, DELAWARE**

ATTENDEES

AUDIT COMMITTEE

Bill Markell
Joel Poorman
Harold Smith

KPMG

Fran Murphy
Evelyn Zerenner

STATE AUDITOR'S OFFICE

Candace Casto

PENSION OFFICE

Alice Simon
Kathy Kunkle

The primary purpose of the meeting was to prepare for the Annual Audit for the year ending June 30, 2006 and the Funds Annual Report.

AUDIT TEAM

The audit team will be the same at the "top" as last year---Fran Murphy, Engagement Partner [subsequently this was changed and Bob Stein will replace Fran]; Joe Siebert [Concurring Review Partner], Evelyn Zerenner [Assurance Senior Manager], Danny Creedon [Information Risk Management Partner]; however at the working level the Accountant in Charge is still to be assigned and the Information Risk Manager [Mark Brand] is new. Joel Poorman stressed at the meeting and in a subsequent call to Fran Murphy that with the change in Actuary, a new custodian and the complications of transferring certificates etc. it was critical that we have experienced auditors on the account so the Pension Office staff is not involved in "training" the auditors.

CHANGES FROM PRIOR YEAR

This year there is a new accounting requirement, GASB #44, which requires additional statistical data [retired member by type of benefit, average benefit payments and principal participating employers] as well as ten years of data rather than the six years previously supplied. The information is available and no problems are anticipated. GASB #45 which covers reporting the health benefits of retirees is to become effective for 2008.

Although Northern Trust becomes the Custodian Bank effective July 1, and is not part of the "official" audit report, the transfer is a "significant event" and will be include in the footnotes of the audit report. The transfer from Mercantile, as of the time of this meeting, is proceeding on schedule and should not impact the audit report. The new actuary will be involved in supplying the data for the various assumptions and calculations. However the staff of the new actuary has previous experience with the Fund and no problems are anticipated.

PRIOR YEAR'S MANAGEMENT LETTER

Last year's management letter had 11 items. Of these three dealt with procedures involving Mercantile which are no longer applicable with the transfer to Northern Trust; four comments require action by the Information Technology Department and are not controlled by the Pension Office; of the remaining four items [1] on-site audits are to be resumed to verify the accuracy of remitted payroll and human resource information [2] the STAT Change Control tool is now complete and should resolve the problems surrounding PeopleSoft changes [3] the passwords on some PeopleSoft generic super user accounts had not been changed and could be easily guessed. This has been investigated and password changes were made [4] the administration of the network system has been reviewed to ensure that accountability is available.

AUDIT/ANNUAL REPORT SCHEDULE

The timing for this year's Audit Report and the Annual Report on the Fund is as follows:

Early June	The KPMG audit team will meet with the Pension Office staff for indoctrination and preliminary field work
Late June	The IT audit will begin reviewing the procedures and processes
July 31	KPMG will start the field work. This is anticipated to last about three weeks.
Aug 17/18	Draft of the investment section of the Annual Report will be sent to the Investment Committee for review at its meeting of August 22.
Aug 24	Full draft of Annual Report to be sent to Audit Committee for review/comment.
Aug 30	Exit meeting with KPMG [10:00 in Wilmington] to review the Audit Report. The Audit Committee to give comments on the draft Annual Report.
Sept 5	Deadline for all comments on the Annual Report and the Audit Report
Sept 8	Annual Report/Audit Report sent to the printer
Sept 29	Board of Trustees meeting to approve the Report.

Cc: Audit Committee Members

Phillip Reese

David Craik

Alice Simon