

DELAWARE PUBLIC EMPLOYEE'S RETIREMENT SYSTEM
AUDIT COMMITTEE MEETING FEBRUARY 12, 2007
DOVER, DELAWARE

ATTENDEES

AUDIT COMMITTEE

Robert Allen
Joel Poorman
Harold Smith

ATTORNEY GEN. OFFICE

Cynthia Collins

PENSION OFFICE

David Craik
Kim Vincent
Kathy Kunkle
Debbie Nicholson
Jeff Hoover
Jeff Johnson

PURPOSE OF THE MEETING

Have the Audit Committee meet the new staff members and the new Attorney General's Office representative; review the status of implementing the recommendations in the Auditor's Management Letter; discuss the results of the consulting accountant's review of the Pension Office procedures; receive an update of the activities of the Board of Trustees and the Investment Committee.

STATUS OF IMPLEMENTATION OF 2006 MANAGEMENT LETTER

An active program has been underway to implement the recommendations of the 2006 Management Letter. The respective items have been assigned to specific individuals who are accountable for the implementation. To date, five items have been implemented; three items have procedures in place to review/analyze the year-end 2006 reports to be received shortly [e.g. SAS 70 Reports]; efforts are on track for three other items to have procedures in place by the close of the fiscal year; the remaining two items are still being evaluated by DTI.

BEARD MILLER COMPANY REVIEW

Beard Miller Co. was hired to review the current procedures for [1] cash to accrual conversions, [2] valuing alternative investments, [3] internal tracking of cost basis and cost basis adjustments and [4] examining custodian reports available for use in DPERS financial reporting. Summary comments are:

- The current procedures to calculate the accruals are adequate. Written documentation of the accrual procedures for year-end is critical and should be established. This will also help to avoid problems when there is turnover of personnel
- Currently alternative investments are reported on a one-month or one-quarter lag adjusted for cash flows. Efforts need to be made to ensure the fair market value

measurements are in accordance with GAAP. This will require a concerted effort by the Pension Office to implement the policies and procedures in the AICPA Practice Aid on Alternative Investments. These procedures should be evaluated on a fund by fund basis. The policies and procedures, as well as management analysis and communications with fund managers, should be in writing to provide substantiation of actions taken.

- The spreadsheets relating to the internal tracking of cost basis are accurate but the procedures need to be in writing to ensure consistency.
- Reports from the new custodian, Northern Trust, can be used to update Pension Office's financial reporting spreadsheets on a monthly basis. Specific reports are [1] income and expense summary, [2] funding and disbursement summary, [3] realized gain/loss summary and [4] asset summary.

OTHER MATTERS

- The Pension Office has had preliminary discussions with KPMG to improve the audit process and begin scheduling staff for the 2007 Report. It is anticipated more time will be required because of the custodial bank conversion, securities lending program and alternative investments valuation. KPMG has indicated they will apply to the State Auditor's Office for a pricing change because of the current broader scope than required at the time the contract was written.
- Discussions are underway by the Pension Office on getting a general ledger system. There are two alternatives---maintaining one in house or participating in the new state-wide PeopleSoft/Oracle system that is to be operating by February 2009. Kathy Kunkle will meet with the State's system development teams especially on the cash management and general ledger modules.
- Flow charts on the administrative procedures have been updated and were distributed to the Committee. Comments and discussion of the charts will be at the next meeting.
- The Committee went into executive session to discuss personnel and legal matters.

Cc: Audit Committee Members
Philip Reese
David Craik
Kathy Kunkle