

**DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM
AUDIT COMMITTEE MEETING MAY 7, 2007
WILMINGTON, DELAWARE**

ATTENDEES

AUDIT COMMITTEE

Joel Poorman
William Markell
Harold Smith

KPMG

Bob Steen
Evelyn Zerenner
Kathlynn Farley

INVESTMENT COMMITTEE

Jan King

PENSION OFFICE

David Craik
Kim Vincent
Kathy Kunkle
Jeffrey Hoover
Jeffrey Johnson

ASHFORD CONSULTING

Ted Ashford
Garry Musto
Rob Gooderham
Linda Drew

ATTORNEY GENERAL'S OFFICE

Cynthia L. Collins

STATE AUDITOR'S OFFICE

Stacey Wynne

The primary purpose of the meeting was to prepare for the Annual Audit for the year ending June 30, 2007 and the fund's Annual Report.

MOTION made by H. Smith and seconded by W. Markell to move into Executive Session for the purpose of discussing confidential information relating to venture capital and limited partnership investments.

MOTION ADOPTED UNANIMOUSLY

Following that discussion, a motion was made to return to Public Session.

MOTION made by H. Smith and seconded by W. Markell to return to Public Session.

MOTION ADOPTED UNANIMOUSLY

AUDIT TEAM

The audit team will be Bob Steen, Engagement Partner; Joe Siebert, Concurring Review Partner; Katie Farley, Engagement Manager (replacing Evelyn Zerenner); Sophia Smith, Senior Associate; and Chris Chepel, State Oversight Manager. The Audit Committee, Ashford Consulting and KPMG discussed the Alternative Investments and the difficulty in valuation. KPMG made it clear they do not want the auditing practices to affect the investing criteria of the Delaware retirement system pension fund. The Audit Committee agreed to provide as much information as possible regarding the alternative investment valuation without posing a conflict with confidentiality of the venture capital funds. In anticipation of the additional field work required in the valuation of the alternative investments the auditors will be invoicing for an additional \$10,000 and an additional time of two weeks.

CHANGES FROM PRIOR YEAR

KPMG anticipates additional invoicing of approximately \$19,000 to cover the identified expanded scope of the FY2007 audit, and provided details of the cost drivers.

The change in Custodian from Mercantile to Northern Trust will require additional field work and invoicing of \$5,000 from KPMG. Also the change in custodians will effect the allocation of the assets in the financial statements, but KPMG does not see this being a material event affecting an opinion as this event is common with custody transitions.

Along with Northern Trust becoming the Custodian Bank during the fiscal year 2007, the Delaware Pension Fund Board elected to participate in a securities lending program. The securities lending program will require additional field work and invoicing of \$4,000.

This year there is a new accounting requirement, GASB Statement No. 43, which establishes accounting and financial reporting for plans that provide other post-employment benefits (OPEB) other than pension benefits (for example, health insurance, and life insurance). Legislation is being drafted that would accommodate the new accounting reporting requirements.

Another new accounting requirement, Auditing Standards No. 112, requires the establishment of standards and guidance on the auditor's responsibilities for evaluating the severity of control deficiencies identified as part of the audit and communicating matters related to an entity's internal control over financial reporting identified in an audit of non-issuer financial statements.

FLOW CHARTS

The Audit Committee reviewed and approved the revised Pension Office flow charts. The work processes described have been updated to reflect the change bank custodian change.

SECURITIES LENDING

J. Poorman reviewed for the Committee the meeting with Northern Trust that he, G. Musto and S. Yablonovitz had in Chicago. Northern Trust provided an in-depth analysis by key staff members of program processes and resources. They remain convinced that the program is sound and well-managed to minimize known risks.

PRIOR YEAR'S MANAGEMENT LETTER

Last year's management letter had 13 items. All items excepts for IT items have been addressed. IT items will be addressed or closed by June 30, 2007.

AUDIT/ANNUAL REPORT SCHEDULE

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

May & June	Preliminary field work and Custodian transition review.
May 21	The IT audit will begin reviewing the procedures and processes
July 30	KPMG will start the field work. This is anticipated to last about five weeks.
Aug 16	Draft of the investment section of the Annual Report will be sent to the Investment Committee for review at its meeting of August 21.
Aug 28	Full draft of Annual Report to be sent to Audit Committee for review/comment.
Week of Sep 4	Exit meeting with KPMG (time and date to be finalized)
Sep 10	Deadline for all comments on the Annual Report and Audit Report
Sep 17	KPMG signs off on CAFR
Sep 19	Annual Report / Audit Report sent to the printer
Sept 29	Board of Trustees meeting to approve the Report.

At 12:10 p.m., there being no further business, MOTION was made by H. Smith and seconded by W. Markell to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Cc: Audit Committee Members

Philip Reese

David Craik

Kathy Kunkle