

May 18, 2011

To: Members of the Board of Retirement

From: Donald R. White, Chair

Subject: Summary of the May 18, 2011 Audit Committee Meeting

Audit Committee Chair Donald White called the May 18, 2011 Audit Committee Meeting to order at 1:05 p.m. The Committee members present were Donald White, Chair and Annette Cain-Darnes. Other Board members present were Elizabeth Rogers, George Wood, and Alternate Member Darryl Walker. Members of the Staff present were Catherine Walker, Acting Chief Executive Officer, Robert Gaumer, Chief Counsel, Harsh Jadhav, Internal Auditor, Kathy Foster, Assistant Chief Executive Officer, Rose Kwong, Benefits Manager, J.P. Singh, Chief Financial Officer, and Betty Tse, Chief Investment Officer.

ACTION ITEMS

1. Discussion and Possible Motion to Accept the December 31, 2010 Audited Financial Statements and Independent Auditor's Report

Staff proposed, before taking action on this item, to take up the first information item, concerning the presentation by Williams Adley & Company, LLP (WACO) of the December 31, 2010 audited Financial Statements.

After presentation of the Audit Financial Statements for the year ending December 31, 2010 and discussion Annette Cain-Darnes moved and Darryl Walker seconded a motion to recommend to the Board to accept and file the December 31, 2010 audited Financial Statements and the Independent Auditors' Report. It passed unanimously.

INFORMATION ITEMS:

External Audit

1. Presentation of the December 31, 2009 Audited Financial Statements

ACERA's external auditor, William Adley & Company (WACO), presented the Audit Results for the year ending December 31, 2010.

In its presentation WACO reviewed required communications, audit scope and the audit results. In the discussion of required communications, WACO stressed that management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by ACERA are described in note 1 to the financial statements. ACERA implemented GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets. They noted there were no transactions during the year for which there was a lack of authoritative guidance or consensus. They also noted that there were no significant transactions recognized in the financial statements in a different period than when the

transaction occurred; no sensitive accounting estimates; no significant difficulties in dealing with management; no disagreements with management; and no adjustments or passed adjustments. They considered ACERA's internal controls only for the purpose of conducting the audit and did not express an opinion concerning such internal controls.

WACO referred to the Audit Scope, and mentioned the different areas of risk and the audit approach used. With regards to the compliance testing, they found no exceptions to the '37 Act Requirements or to ACERA'S Policies and Procedures. They also noted that ACERA's expenses were within the Administrative Limitation. The audit is substantially complete and they will be providing an unqualified opinion on the Financial Statements. With regards to Internal Control and Compliance, they identified no significant deficiencies, material weaknesses, or compliance findings. The final report is to be submitted to the full Board upon acceptance by the Audit Committee. Any Management Letter Comments, will be presented at the next Audit Committee meeting.

2. Financial Overview for December 31, 2010

Staff provided a brief overview and re-cap of key performance indicators, both financial and operational, as well as, the financial results for the year ended December 31, 2010, including the Statement of Plan Net Assets, Statement of Changes in Net Plan Assets, Notes to the Financial Statements, and Required Supplementary Information and Supporting Schedules.

Internal Audit

3. Progress Report on Internal Audit Work Plan

The Internal Audit Department presented an update to its 2011 work plan. The Internal Audit Department has initiated the planning stage on two of the three proposed audits (Securities Lending and Retiree Death Benefits). The planning stage involves confirming the scope of the audits and designing the initial audit work plan. Additionally, the Internal Audit Department has launched the following three projects: a joint governance initiative with SACRS, an assessment on the value of Enterprise Risk Management for ACERA, and the development of an Internal Audit Operations Manual.

4. New Internal Audit Initiatives

Staff presented a general review of the background and process involved in performing a fiduciary audit. The presentation included scope, personnel involved, process, cost versus benefit analysis, other 1937 Act systems experience, and possible next steps. Staff also provided a Board Risk Assessment Matrix (BRAM) which can be used as a high level best practice guideline to identify general risks faced by other retirement systems.

TRUSTEE/PUBLIC INPUT

None

RECOMMENDATIONS

Audit Committee

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1. The Audit Committee recommends to the Board of Retirement to accept and file the December 31, 2010 audited Financial Statements and the Independent Auditors' Report.

FUTURE DISCUSSION ITEMS

- Presentation of the Auditor's potential 2010 Letter to Management.
- Progress Report on Internal Audit Work Plan.

ESTABLISHMENT OF NEXT MEETING DATE

TBD

MEETING ADJOURNED

The meeting adjourned at 2:04 p.m.