

October 12, 2011

To: Members of the Board of Retirement

From: Donald R. White, Chair

Subject: Summary of the October 12, 2011 Audit Committee Meeting

Audit Committee Chair Donald White called the October, 2011 Audit Committee Meeting to order at 1:00 p.m. The Committee members present were Donald White, Chair, Dale Amaral, Keith Carson, Liz Koppenhaver and Annette Cain-Darnes. Other Board members present were George Wood, and Alternate Members David Safer and Darryl Walker.

Staff present were Vince Brown, Chief Executive Officer; Catherine Walker, Assistant Chief Executive Officer; Kathy Foster, Assistant Chief Executive Officer; Robert Gaumer, Chief Counsel; Harsh Jadhav, Internal Auditor; Betty Tse, Chief Investment Officer; JP Singh, Chief Financial Officer; Rose Kwong, Benefits Manager; and Latrena Walker, Projects and Information Systems Manager.

ACTION ITEMS

There were no action items.

INFORMATION ITEMS:

External Audit

1. 2010 Audit Management Letter Comments

JP Singh, ACERA's Chief Financial Officer announced that ACERA received an unqualified opinion on the audit of Financial Statements for the period ending December 31, 2010. Further, Williams-Adley & Company reported that after reviewing ACERA's internal controls and compliance, they found no compliance findings, significant deficiencies, or material weaknesses. Consistent with the last two years, ACERA once again, did not receive any Management Letter comments.

Internal Audit

2. Progress Report on Internal Audit Work Plan

The Internal Audit Department presented a progress update on the 2011 work plan. All audit initiatives were completed or on track to be completed by year-end, except for the Segregation of Duties Audit in Great Plains, which was deferred to 2012. The change in security profile configurations, resulting from the recent upgrade of Great Plains, will be updated in the fourth quarter of 2011, thus not allowing sufficient time complete this audit in the current year. Future audit initiatives discussed included a proposed Cash Management

Audit and several Accounting Efficiency Audits (Deferred Expenses, Investment Accounting, Vacation Accruals, etc.).

3. Results of the Securities Lending Audit

The Internal Audit Department found that controls employed by State Street Bank and ACERA were effective. For several key controls related to infrastructure, security and process, we relied on tests conducted by Ernst & Young, LLP. One recommendation was made to require certain personnel of State Street to complete Form 700, to enhance compliance with the ACERA Conflict of Interest Policy. Please note that a similar observation was made by the Legal Department, and reported to the Governance Committee in 2006.

4. Results of the Active/Deferred Death Audit

The overall process for managing active and deferred deaths was found to be effective. One area identified as requiring improvement was the necessity to design a better mechanism to notify the Accounting Department about deferred member deaths, to ensure an accrual for a death benefit liability is made on a timely basis. Additionally, when reviewing calculations for the Active Death Equity Benefit (ADEB) for beneficiaries of deferred deceased members with reciprocity, it was unclear if it was appropriate to use SRBR funds to make death benefit payments for deferred member. The Benefits Department and Legal Department will discuss this issue further, and bring it to the Retirement Committee for review.

TRUSTEE/PUBLIC INPUT

None

RECOMMENDATIONS

FUTURE DISCUSSION ITEMS

- Discussion of the Annual Risk Assessment and Proposed 2012 Audit Plan.
- New Internal Audit Initiatives.

ESTABLISHMENT OF NEXT MEETING DATE

February 2012

MEETING ADJOURNED

The meeting adjourned at 1:42 p.m.