

**AUDIT COMMITTEE MEETING OF THE BOARD OF ADMINISTRATION
RETIREMENT BOARD
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

MEETING – January 26, 2005

Present:

Gerard McCallum II	Chairperson
Mike Moore	Retiree Member – Vice Chairperson
Lilly Calvache	Audit Committee Member

Others Present:

Robert K. Rozanski	Acting Retirement Plan Manager
Sangeeta Bhatia	Assistant Retirement Plan Manager
Irene Colon	Recording Secretary
Mike Wilkinson	Deputy City Attorney

The meeting was called to order at 10:06 a.m.

[Pledge of Allegiance]

Mr. Rozanski indicated a quorum of the Audit Committee was present.

Mr. Rozanski summarized Item 1 is Pension Consulting Alliance's (PCA) report on other retirement plans' audit committees and their responses to Sarbanes Oxley. The Committee requested information and a briefing concerning Sarbanes Oxley and its implications to the Retirement Plan. Mr. Rozanski indicated Pension Consulting Alliance (PCA) had prepared a summary. He explained that PCA sampled various entities to find out what they have in place with respect to their Audit Committees and how they are responding to Sarbanes Oxley. He invited PCA to come forward and provide the Audit Committee with an overview.

Ms. Sarah Bernstein, of PCA, approached the Board table.
Chairperson Gerald McCallum II acknowledged Ms. Bernstein.

Committee Member Lilly Calvache commented that this information was exactly what they requested in the previous meeting. Chairperson McCallum agreed with Committee Member Calvache. He also commented that the scope was broad. He added the Committee only needed ideas on what other institutions were doing. Discussion ensued among the Committee members about how they need guidance and direction in regard to their responsibilities as an Audit Committee.

Ms. Bernstein referred to page 2, which is a table of the organizations PCA sampled. She indicated the table shows the three larger plans: California Public Employee Retirement Systems (CalPERS), California State Teachers' Retirement System (CalSTRS), and the Los Angeles County Employees' Retirement Association (LACERA).

Ms. Bernstein informed the Board these plans are starting to implement, voluntarily, some of the Sarbanes Oxley requirements. She explained LACERA established an audit committee for the first time last year, prompted by Sarbanes Oxley. Ms. Bernstein pointed out Los Angeles City Employees' Retirement Systems (LACERS), State Teachers' Retirement System (STRS) of Ohio, and Fire and Police Pensions have not pursued Sarbanes Oxley. However, LACERS has an Audit Committee that has not met for a year. She explained the brief summary, prepared by PCA, of what City of Los Angeles Department of Water and Power (LADWP) is doing in regards to Sarbanes Oxley. She added LADWP is also complying with Sarbanes Oxley and hiring financial experts and legal expertise for briefings. Ms. Bernstein then pointed out the 149-page attachment was information from two pensions funds that are implementing Sarbanes Oxley. She added it is normal for an Audit Committee to work with a drafted charter to create its own. She stated there were a few things that arise from Sarbanes Oxley on a regular basis, which the Audit Committee could consider in regards to term limits for the auditor. She advised to turnover the auditor for the term limit stated in the charter, and bring in a new auditor. She indicated LADWP has established its charter to renew its auditor every 12 years. She added another requirement of Sarbanes Oxley is to obtain a financial expert, which is voluntary. She informed the Audit Committee that CalSTRS and CalPERS have setup educational conferences for their audit committee members to become familiar with financial and auditing practices, which they can use to read basic financial statements. Ms. Bernstein explained the 149-page attachment is all from CalPERS and CalSTRS. She stated the CalPERS information is a drafted charter that has been edited to adopt Sarbanes Oxley. She added these are the best practice models from much larger institutions with greater resources. Ms. Bernstein also stated PCA provided information they received from CalSTRS. She added they [CalSTRS] are in the process of implementing significant practices as an audit committee. She reiterated PCA is not giving advise to this Audit Committee, but they are simply providing some background information for the Audit Committee to review.

Vice Chairperson Moore referred to the Association of Public Pension Fund Auditors (APPFA) attachment, which lists operational and investment risks and ways to mitigate those risks, and commented he found it useful. He pointed out that in relation to Item 2, the Department has its own independent auditor separate from the Retirement Board, which also has its own auditor. He inquired if the Department is attempting to comply fully with Sarbanes Oxley. Mr. Rozanski replied from his understanding that the Department of Water and Power Board President believes it is important for them [the Department of Water and Power Board of Commissioners] to comply voluntarily where applicable. He added that one of the steps was to begin the rotation of the auditors, and to begin briefings with Price Waterhouse Coopers, which is the Department's Board of Commissioner's current auditor. He informed the Audit Committee that the Department did go out for an RFP; and unfortunately, only one major firm

responded to the RFP for the Department. He indicated the Department's Board of Commissioners is in the process of establishing a contract with Price Waterhouse Coopers. He added the President of the Department's Board of Commissioners indicated the need to potentially hire another firm to advise the Audit Committee of the Board of its responsibilities, independent of the new external auditor, and this is something that has not been finalized yet, but is in the process of being done. He also stated he needs to investigate if there is a charter for the Department's Board of Commissioner's audit committee.

Vice Chairperson Moore asked for clarification from Mr. Rozanski if the new RFP will include Price Waterhouse Coopers again. Mr. Rozanski answered it will not be included, but he explained it involved complying with the provisions of Sarbanes Oxley. He said the need to have a third party, which would be the new auditor from the new RFP, is to assist the Audit Committee. He further said that this would be the first step in a series that would probably occur over time, but they have not been fully defined at this point.

Chairperson McCallum expressed his concern that the Audit Committee needs to define its procedures to hire a professional consultant due to the overwhelming responsibilities of the Audit Committee. He suggested outlining a standardized approach to combine both audit committees and asked PCA to assist the Audit Committee with outlining these procedures.

Committee Member Calvache asked Mr. Rozanski where Department staff was in the process of hiring an auditor for the Audit Committee. Mr. Rozanski explained staff has selected a firm, but the Board has not approved the firm yet. He informed the Audit Committee, from the RFP, staff has evaluated and recommended the firm, Klyveld Peat Marwick Goerdeler (KPMG). He elaborated as part of the transition process, changing auditors always raises red flags. Mr. Rozanski explained the new auditor might believe there is something going on; otherwise, why would you change because you would normally stay with the same auditor. He pointed out the issue with changing auditors under Sarbanes Oxley was a matter that was not decided yet, specifically – because it was a controversial issue. He pointed out that KPMG is performing its due diligence process by evaluating management — looking into the backgrounds of management, asking for social security numbers, home addresses, and time periods in certain homes, or place of residence. He added that the final item KPMG will consider, before acquiring DWP as its client, is to review DWP's financial statement, which has not been issued due to pending approval from the Department Board. He informed the Audit Committee that another red flag would be raised when KPMG discovers that DWP does not have its financial statements issued (which is usually issued September/October) — and it is the end of January 2005. Mr. Rozanski described how cautious KPMG is as auditors stating they read all the news topics having to do with transfer issues, pay-to-play, etc., which are topics that raise big red flags. He continued that once KPMG

receives the Department's approved financial statements, it [KPMG] would make a determination whether or not it will accept the Retirement Board as a client. He added that KPMG is the auditor for two proprietary Departments, Airport and Harbor.

Committee Member Calvache asked Mr. Rozanski what roles will the Retirement Board and the Audit Committee play once an auditor is hired. She added how would the Department Board and Retirement Board audit committees exchange information. Mr. Rozanski explained that each Board has its own external auditor. He further explained that the Department's Audit Committee is contemplating hiring KPMG only as a consultant. Mr. Rozanski suggested when the Department's Audit Committee decides on an auditor, the Retirement Board may want to retain that same auditor to provide some service to the Retirement Board's Audit Committee, if there is no conflict or potential conflict.

Vice Chairperson Moore interjected and expressed his opinion stating there is potential conflict retaining the Department's auditor to assist the Retirement Board's Audit Committee. Vice Chairperson Moore also stated he was in favor of Item 2, the Department's auditor performing a risk assessment on the Retirement Board because he is not content with the performance of the current auditor. He is interested in seeing a risk-assessment and thinks the Audit Committee members would be happy with having Item 2 work out. He further added that the potential conflict is prominent and the Audit Committee needs to review before any decision is made; although, he is not sure of the timeline the Audit Committee is looking at to establish a schedule to pick a new auditor for the Retirement Board. He stressed the importance of beginning this process.

Committee Member Calvache informed the Audit Committee that this issue with the internal auditor occurred at one time. She summarized the issue stating the Board requested to have an internal auditor for the investments, which caused the same concerns of having someone internally perform the audit. She pointed out that was the only option for the Board at the time, aside from doing nothing.

Chairperson McCallum expressed his dilemma with hiring the only firm responding to the RFP. He stated he had doubts about making the decision to hire a consultant if KPMG was the only firm who responded to the RFP. He added it would seem as if they would be forced into a contract if they were to pick the only respondent to the RFP. Vice Chairperson Moore and Committee Member Calvache concurred with Chairperson McCallum.

Mr. Rozanski reminded the Audit Committee that staff provided the Board with a schedule showing when the RFP process would be completed to retain a new external auditor for the Retirement Board. Mr. Rozanski asked Ms. Bhatia when this took place. Ms. Bhatia replied the process might begin in April or May 2005. Mr. Rozanski stated the external auditor would be hired to look at the books and records and certify the financial statements. He continued to state retaining a consultant might result in a better RFP response than the Department. Mr.

Rozanski added the electric utility business, especially, related to public power and water service, is a very specialized area. He explained some firms have the expertise and majority of the clients, whereas, the other firms do not have the expertise. He added for them to develop the expertise it is almost as if they are making a new investment in a new business practice where they have to develop critical mass, recruit people that have the expertise, and then put the whole operation into play. He stated as it relates to the Retirement Plan, it may be that there are more auditors that have that background and expertise, which may not be as specialized; therefore, it could be that the Audit Committee would get an aggressive response.

Vice Chairperson Moore expressed his surprise that there was only one response to the RFP. Mr. Rozanski explained due to the effect of the rotation program of a 12-year contract maximum, KPMG declined because it exceeds its time. He stated the other firm, Deloitte & Touche (D&T), does litigation work for the Department, in addition to other consulting type work. He added their current auditor, Price Waterhouse Coopers, was precluded from providing any further services due to potential conflicts; therefore, staff has to retain the other firm, who is satisfied with providing those services. Mr. Rozanski continued to state however, this firm is not interested in bidding as the Retirement Board's external auditor, which leaves one other firm. He explained that the dilemma is that there are still ongoing discussions, and the other two proprietaries are experiencing delays of issuing their financial statements. He informed the Board that there has been some turnover within KPMG, as he understands, which have raised concerns and red flags outside LADWP. He stated he did not know what would become of that situation.

Ms. Bernstein suggested getting one of the four big firms, prior to hiring, either as a financial consultant or new auditor. She also suggested the Association Public Pensions Funds Auditors come before the Audit Committee and brief it on best practices for public pension fund within the Sarbanes Oxley – to give additional insight into what other plans have, including DWP's expertise. She continued this would give the Audit Committee a chance to review the issues of hiring a consultant and determine the responsibilities expected from the consultant.

Vice Chairperson Moore referred to Ms. Bernstein statement that CalPERS was focusing on Section 404, which is an annual sign off on internal controls and procedures, and CalSTRS was focusing on Section 302 and 404; Section 302 is the quarterly sign off by the Chief Financial Officer (CFO) and Chief Executive Officer (CEO) of the company on the quarterly statements. He asked if there were reasons why they focused on those specific sections, as opposed to other sections of the Act. Ms. Bernstein replied she was not comfortable speaking for the two Audit Committees; therefore, she could not answer his question. Mr. Moore acknowledged her decision.

Chairperson McCallum commented that, briefly looking at the handout, it seems as though the firm pushes its responsibilities down the line. He stated, from his perspective, they may have to adopt this plan, rather than turning the audit committees into auditors. He added he noticed that it was also requiring the audit committees, referring to CalSTRS, to create an Audit Committee Charter that establishes continuing education requirements. He further commented that it seems the audit committee will have to acquire a consultant and is responsible to continue his/her education on audits.

Vice Chairperson Moore suggested the Audit Committee review the documents and meet again to determine the Audit Committee responsibilities. All Audit Committee members concurred unanimously.

Vice Chairperson Moore asked if D&T would be the logical choice to assist the Audit Committee since it would be performing a risk assessment report. Mr. Rozanski agreed with Vice Chairperson Moore. He referred to Item 2 on the Audit Committee Meeting Agenda and suggested having auditors perform a complete review of the organization as a whole, instead of focusing only on the investment aspects. He informed the Audit Committee that the Director of Internal Audit determined the auditors would focus on the investment side. He continued stating if the Audit Committee preferred to review the Department as a whole, rather than the investment side alone, the Audit Committee might consider giving a briefing and provide some guidance on how to approach the various risks and responsibilities associated with the Audit Committee moving forward. Vice Chairperson Moore stated he agreed with Mr. Rozanski and commented that the timing of Item 2 coincides with transferring the responsibilities to the new custodian. He stated, in addition to assessing the risks, D&T should help the Audit Committee and staff find ways to best use Mellon Trust Bank of California's (Mellon) reports to accomplish these various control issues.

Mr. Rozanski pointed out D&T raised a question about when its fieldwork would begin. He suggested D&T start when staff has a full sweep of reports from the completion of the transition and for new processes in place. He added D&T can review these reports and processes to verify if there are any gaps in controls, identify them, and respond to them accordingly. Mr. Rozanski then informed the Audit Committee that Mr. James Tan, from the Internal Audit Department, was present to provide perspective on what was proposed, and to share his opinion on the issue of D&T assisting the Audit Committee.

Committee Member Calvache acknowledged Mr. James Tan.

[Mr. Tan approached the Board table.]

Mr. Tan introduced himself as the Assistant Director of the Internal Audit business unit and stated the Department requested Deloitte & Touche to perform a risk assessment study of Department operations. He continued to state that

D&T performed the risk assessment and determined that the retirement investments ranked as a high-risk area. He added there had been change in investment policy. Mr. Tan suggested since the Internal Audit Department does not have investment expertise, the Retirement Board should get outside help from an external auditor. He described to the Audit Committee the typical consulting type of work the auditors will perform stating, the auditor will narrow the scope of the investment, look closely at the investment policy, monitor the reports, and then propose a full-step approach to identify the Audit Committee's investments and then compare it against industry practices. He continued stating the auditor will then perform a gap analysis and provide a proposed solution. Mr. Tan informed the Board he spoke with Mr. Rozanski and came to an agreement the auditor should start at the beginning of the transition period. He added the proposed amount would be \$100,000 for the investment area only.

Vice Chairperson Moore inquired how much more would it be if they were to include the operational side in the membership area. Mr. Tan replied \$200,000.

Attorney Mike Wilkinson inquired if this proposed amount would be added to an existing contract with D&T. Mr. Rozanski responded in the affirmative and explained that D&T services and support are not only for the internal audit function, but it is also for litigation related to rate matters and the Department's costs service study audits. He stated D&T would review the Department's costs and services for purposes of entering into long-term contract rates with customers, due to a long-term ordinance. He informed the Audit Committee that the contract was done informally and has been extended a few times, with the scope and dollar amount increased significantly over time, which recently was increased again and sent to City Council for approval. He then asked Mr. Tan if this was his understanding. Mr. Tan agreed. Mr. Rozanski stated there is a limited amount remaining on the contract which will be increased without going back to City Council. He inquired if the \$100,000 is what was anticipated to increase the contract. Mr. Tan stated there is a limit to how much you can spend under that contract, which was budgeted for the time allotted.

[Mr. Tan's response was inaudible at this point of the tape.]

Vice Chairperson Moore asked Mr. Tan, based on the assessment, if he was relatively comfortable with the exposure on the other side of the business — the operational, membership, benefits, risks are far less than the exposure in the investment area based upon the dollars involved. Mr. Tan responded in the affirmative.

[Mr. Tan's response was inaudible at this point of the tape.]

Mr. Rozanski suggested, due to the turnover in those areas, there should be a thorough audit performed now or later, in the membership area as well.

Vice Chairperson Moore inquired if one of the Board's options is to have a

separate contract for that additional work effort. Mr. Rozanski responded in the affirmative. Vice Chairperson Moore asked Mr. Rozanski if this was worth considering. Mr. Rozanski replied it would be better for the Board and the Audit Committee, and would give them full control. He suggested adding to the following requirements: 1) to assist the Audit Committee in developing a charter to delineate responsibilities, and 2) to help the Audit Committee identify areas most important for compliance.

Vice Chairperson Moore inquired what the limits were on an informal contract prior to it going before the Board and the Council. Mr. Rozanski replied, generally, it would be \$150,000 and anything over three years in duration would go to the Council. Vice Chairperson Moore confirmed this contract would not go over three years.

Mr. Rozanski suggested performing a mini-RFP and make it available on the Retirement Board website, so it would not be an overwhelming process and would quickly retain an auditor. He clarified this would be independent of the other RFP, which is to hire the external auditors that are going to be certifying the financial statements.

Committee Member Calvache expressed her concern if they [Audit Committee] will be able to find a reputable company. Mr. Rozanski responded in the affirmative and gave D&T as an example. He continued stating since D&T submitted a proposal to look into the entire retirement area, this would suggest they have the expertise and are interested in doing the work; therefore, he expects that they would be one of the possible bidders.

Vice Chairperson Moore asked Mr. Rozanski for clarification stating if he [Mr. Rozanski] was saying it would make more sense to have all the responsibilities under one contract, rather than separate the responsibilities with the contract of the Department from the Retirement Board. Mr. Rozanski confirmed it would make sense, intuitively, if it were all one contract tied together.

Vice Chairperson Moore expressed his concern stating by putting it together in pieces, rather than putting it all together, may cause distrust. He suggested that the Audit Committee move quickly, in terms of getting indications of interest, and then have a set of serious proposals. Mr. Rozanski agreed. He suggested presenting the proposals before the Audit Committee to recommend which firms to retain, and then interview only the top candidates. Committee Member Calvache commented that she would feel comfortable putting it all together.

Mr. Rozanski asked Mr. Tan to comment on the Retirement Board's initiating an audit similar to the internal audit. Mr. Tan responded stating it could be a definite option.

[Mr. Tan's response was inaudible at this point of the tape.]

Mr. Rozanski indicated based on this decision, there is a starting point to begin

the audit. However, the issue will be addressed by assisting the Audit Committee to establish a charter. He asked for clarification from Ms. Bhatia, as to how much would be allotted for the services, \$200,000 or \$300,000. He also added that the Board could not approve a proposal without going to the Department of Water and Power's Board of Commissioners.

Vice Chairperson Moore suggested amending the budget.

Deputy City Attorney Wilkinson responded that at this time he does not have an answer.

Vice Chairperson Moore stated if it will be taken from ratepayer funds, the Audit Committee will have to go to the Department Board of Commissioners and draft an amendment, or if it is going to be processed out of the Retirement funds, then it is probably fine. Attorney Wilkinson stated from his understanding, the Department pays for administrative costs, other than the investment advisors. Mr. Rozanski added the Retirement Board could take an action provided the funds were available. Ms. Bhatia commented that they could put the funds under administrative expenses, which are reimbursed by the Department, except for investment expenses. He added, however, staff will have to put together an amendment, which will have to go back to the Board of Commissioners for adoption. Mr. Rozanski asked Ms. Bhatia if the contract goes back to the Board for review. She replied in the affirmative. He expressed that the Board would have the authority to execute the contract subject to having budgeted funds available. Ms. Bhatia commented staff would put it in the next budget, which will be presented at the end of March. Vice Chairperson Moore asked if the budget would be for the fiscal year starting on July 1, 2005 because the Audit Committee would not be able to start any of these procedures until after July 1, 2005. Ms. Bhatia replied staff would verify the information and see which were available to use. Mr. Rozanski stated that staff would look at the budget to determine which funds will be available to begin with.

Vice Chairperson Moore asked Mr. Rozanski if staff has salary savings and flexibility to transfer to a consulting contract or if the cost elements still represent some element of control as to how the money is spent. Mr. Rozanski responded stating that the controls are not as stringent as before, but with new management, there is a desire to strengthen them again. He indicated that they set a threshold of \$100,000.00 and staff has control to move the monies around. He also said, provided funds are available, staff might have to request permission from the Board. Vice Chairperson Moore moved to have staff prepare a Request for Information (RFI) and explore the budget options and dollar issues for the next Audit Committee meeting. Seconded by Ms. Calvache and carried unanimously after the following vote:

Ayes: McCallum, Moore, and Calvache

Nays: None

Mr. Rozanski clarified that an internal audit is on hold subject to the review process. The Audit Committee concurred with Mr. Rozanski.

Chairperson McCallum asked if they had a budget for educational conferences for them [Audit Committee] to continue their education on auditing functions. Ms. Bhatia confirmed that there is a budget for training but she did not recall the exact amount; however, she will research into it. Vice Chairperson Moore informed the Audit Committee of seminars offered in the conferences hosted by institutions that deal with auditing issues. Mr. Rozanski suggested PCA assist in identifying available conferences. Committee Member Calvache suggested looking into International Foundation for educational conferences.

Discussion ensued on the Audit Committee's possibilities of enrolling in conferences or training seminars hosted by institutions to better educate the Audit Committee of Sarbanes Oxley and broader auditing functions.

Ms. Bernstein mentioned Stanford has an annual conference on fiduciary responsibilities, which PCA will look into for the Audit Committee. Mr. Rozanski requested staff, with PCA's assistance, provide the Audit Committee with information of schedule dates and the scope of these conferences. Ms. Bernstein clarified that the Audit Committee members are interested in existing scheduled conferences. Vice Chairperson Moore added they [Audit Committee] were interested in conferences or courses that are for weekend type courses.

Mr. Rozanski summarized Item 2 is to put the Internal Audit Department on hold with respect to the audit of the investments. Mr. Rozanski proposed staff perform an RFI to gather information on firms interested in providing these types of services to the Audit Committee, and look into the budget to ensure the Audit Committee has the appropriate funding.

Mr. Rozanski summarized Item 3 is the proactive monitoring of investments for potential legal actions in connection with irregularities. He explained that staff was informed that one of the City plans hired a firm to monitor its various investment activities of its different funds. He stated the City plan has a contingency arrangement with the firm to review its [City plans] functions, compare it to the firms' database of their clients, and monitor for losses. Mr. Rozanski explained what an auditor would do in case the Retirement Plan was to invest in XYZ Company, but, within a few weeks, lose half of the investment. He indicated, since the firm would be held somewhat liable, the auditor would go after the XYZ Company, with the authorization of the Board. He added the auditor would present the issues with XYZ Company and propose solutions to monitor the investments more carefully, which would be done on a contingency basis. He stated this was a way of proactively monitoring investments, in the type of environment, which the Retirement Board operates in comparison to five years ago.

Mr. Rozanski indicated that the Board is currently notified of class action suites

after the fact. He explained that when a class action suite is filed against a firm the Retirement Plan is invested in at the time of the lawsuit, the firm would send out notices to its clients and shareholders. He continued to explain that in turn, the clients and shareholders should look to see if they were clients and shareholders during that time. He stated if they were, they would need to provide documentation to demonstrate that they should receive a share of the proceeds from the lawsuit. He explained this firm proactively monitors the Board's investment with the idea that they would take action on their own, to the extent it was actionable. Mr. Rozanski indicated staff would bring these services to the Audit Committee's attention and possibly discuss how these services could help the Plan. He added subject to the City Attorney's approval of the Water and Power Commissioners Plan, staff should begin with the RFP process, instead of hiring lawyers. He clarified it is the responsibility of City Attorneys Office to hire lawyers. He then requested Attorney Wilkinson to come forward.

Mr. Rozanski acknowledged Attorney Wilkinson.

Attorney Wilkinson explained that currently Fire and Police Pensions has retained three firms to monitor securities. He explained that there are two different functions involved. He stated the first is to monitor securities, which Mr. Rozanski had explained, to keep track of the various happenings, and many firms provide similar services. He added Kaplan Fox is a firm in particular that Fire and Police Pensions has retained to keep track of this litigation. He continued that the next function is that firms are retained to monitor securities, which many firms will provide free of charge, but with no guarantee they will get the business. If something were presented, the question is whether a particular plan wants to be lead plaintiff, which presents a lot of issues. He explained why it was not beneficial fighting to be lead plaintiff, if one already exists. He stated there is no guarantee the firm would be hired for the case, and there are existing shareholders doing the job. He added Fire and Police Pensions went through an RFP process and picked two law firms to handle the securities monitoring function — each firm to one panel. He indicated the City Attorney's Office is willing to help staff and the Audit Committee.

Vice Chairperson Moore inquired why the activities were divided between three different players, as Attorney Wilkinson described. He added the logical way is to retain only one. Attorney Wilkinson explained there are different specialties. He further explained that 17 firms responded to the RFI but only 1 firm out of 17 firms said they were experts in all three specialties. He added enough firms had expertise in one of those areas except for investment. Vice Chairperson Moore asked for clarification of the three areas of expertise. Attorney Wilkinson responded that one is monitoring securities, which would not include litigation, but the keeping track of filings and general information. Vice Chairperson Moore inquired if these firms would charge for litigation separately. Attorney Wilkinson replied that most law firms offer litigation services free of charge with hopes of being hired for legal services. He explained some firms provide litigation services as an informational service and charge a fee.

Vice Chairperson Moore asked if the Bernstein Livowitz Law Firm offered litigation services free of charge. Attorney Wilkinson commented that he could not recall. Vice Chairperson Moore asked why a firm would provide litigation services for free. Attorney Wilkinson responded that the firms felt that they would have a good chance of being hired if they offered their litigation services for free.

Vice Chairperson Moore asked Mr. Rozanski if the Audit Committee is better off doing an RFP for retaining a law firm. Mr. Rozanski added there are provisions within the charter that allow the Retirement Board to piggyback onto a contract of another City agency. The Water and Power Board Audit Committee felt it made sense to move forward and have options available. Attorney Wilkinson responded that he could do the research on the provisions within the charter. Mr. Rozanski suggested that piggybacking would be the easiest way unless the Board felt they should go out separately and accommodate their own process. Attorney Wilkinson responded and agreed with both perspectives but stated he wanted to research more before making a final decision.

Vice Chairperson Moore asked if the City Attorney's Office was involved in the selection of Fire and Police Pensions. Attorney Wilkinson responded in the affirmative and stated he was familiar with the process. He expressed that the information he was sharing was for informational purposes only.

Chairperson McCallum commented that he liked having a firm monitor the investments for the Audit Committee. He expressed it is beneficial to the Audit Committee to monitor the Retirement Board's investment budget.

Attorney Wilkinson stated that part of Mellon's responsibility, and custodial bank as well, is to ensure no money is left from settlements. Ms. Bernstein stated that even in the Mellon presentation, they mentioned they would work with the custodial bank to receive all their data. She further stated, they would be proactive and do the aforementioned duties at no additional costs. Attorney Wilkinson indicated a number of lawyers provide a similar service that are retained by the Fire and Police Pensions.

Vice Chairperson Moore asked if PCA would clarify their observations on approaches the Audit Committee could take, whether the Audit Committee should independently move forward, or if the Audit Committee should piggy back on what was done previously, at the next Audit Committee meeting. Attorney Wilkinson asked staff of the time allowed to respond before the next meeting. He commented that staff would be looking at perhaps 6-8 weeks if the Audit Committee agreed.

Discussion ensued about the time allotted for the RFI.

Mr. Rozanski explained that staff has a template available, and was in the process of making some modifications to the schedule and he felt that it was not an issue to accelerate the schedule. He asked Ms. Bhatia if she agreed. Ms.

Bhatia responded in the affirmative.

Vice Chairperson Moore asked of the Audit Committee's involvement in the process, and if staff could have an RFP available to review at the next meeting, and perhaps send it out if the Audit Committee was satisfied with the proposal. Mr. Rozanski stated staff could have the RFI process completed, including a draft of an RFP for the Audit Committee's approval. Committee Member Calvache suggested the Audit Committee have a meeting in 4-5 weeks so the Audit Committee could be updated on the status of the RFI, the list of continuing education from Ms. Bernstein and information from the Attorney Wilkinson.

Vice Chairperson Moore clarified that staff will prepare an RFI. Separately, he stated, they [Audit Committee] were discussing the RFP that would follow the RFI. He also stated they were discussing a separate RFP for the new auditor. Mr. Rozanski explained the first process is to perform an RFI, followed by an RFP for the external auditor. He added it was possible to schedule a meeting in six weeks, if the Audit Committee wanted to; therefore, staff can plan accordingly. Vice Chairperson Moore commented a meeting is not necessary unless staff felt the product was available. Committee Member Calvache inquired if staff felt comfortable to schedule a meeting to present a status report to the Audit Committee. Mr. Rozanski reiterated staff would work with a six-week schedule; and if they encounter problems, they would inform the Audit Committee. He added otherwise, staff would continue to work toward completing the process in mid-March.

Attorney Wilkinson recommended a preliminary overview of whether staff would process its own RFP or piggyback onto an existing RFP, which is Fire and Police Pensions.

Committee Member Calvache motioned to adjourn the meeting. Seconded by Chairperson McCallum. Meeting was adjourned at 10:30 a.m.

GERARD MCCALLUM II
Chairperson

LILLY CALVACHE
Audit Committee Member

SANGEETA BHATIA
Secretary

IRENE COLON
Recording Secretary