

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

**MEETING – December 7, 2005**

**Present:**

Eugene Canzano	Chairperson
Mike Moore	Audit Committee Member
Ron Vazauerz	Audit Committee Member

**Others Present:**

Rody Abarro	Acting Assistant Retirement Plan Manager
Manoj Desai	Senior Utility Accountant
Irene Colon	Recording Secretary

The meeting was called to order at 8:00 a.m.

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

Chairman Canzano called the Audit Committee Meeting to order.

Mr. Abarro stated the objectives for the Audit Committee Meeting were to: 1) formally mark the start of the evaluation procedures for the RFP respondents; 2) discuss, modify, or possibly adopt the list of criteria recommended by staff for the evaluation of the responses to the RFP; 3) clarify and possibly agree on the weightings and the scoring methods for the criteria; and 4) set up a timetable for the completion of the project. Mr. Abarro continued, stating that this was the first time anyone had viewed the RFP packages sent by the respondents. He added, once these packages were received by the Retirement Office's Administration Section, they were date and time stamped and kept securely boxed to avoid any tampering with the packages. Mr. Abarro stressed that this is the first time these RFP responses would be viewed by anyone.

Mr. Abarro suggested the Committee proceed with the evaluation and discussion of the criteria suggested by staff to see if the Committee Members would like to add, modify, or delete any of the factors within the major categories of the criteria.

Chairman Canzano asked Mr. Moore for his comments.

Mr. Moore stated that he had reviewed the Evaluation Criteria and had suggested weightings to present to the Committee Members. He inquired, under "Minimum Standards," No. 3, "Comply with applicable requirements for peer

review and continuing professional education,” what was meant by “peer review.” Mr. Abarro responded peer review is something required within the accounting community because of the many scandals that had occurred previously wherein an auditing firm agrees to be subject to an audit by another auditing firm. Mr. Moore asked how long this practice has been in place. Mr. Abarro replied that this practice has been going on for quite some time.

Mr. Moore stated he believes, “Audit Approach and Strategy,” would be a more appropriate place to put the issues dealing with the relationship and roles of the Audit Committee, like what advice the firm might give the Committee in terms of complying with the spirit of Sarbanes Oxley. He added that he realizes that there was mention of this in the Evaluation Criteria under “Communication Process.”

Mr. Moore commented that, with those exceptions, he was comfortable with the criteria that staff had listed.

Mr. Canzano stated that the Committee should first go over the weighting criteria. He then questioned staff regarding the insurance requirements listed in the RFP, inquiring if these requirements are in line with insurance requirements in the past. Mr. Abarro responded in the affirmative, stating that he believes all the respondents can comply with the requirements, but adding staff will still check as part of due diligence.

Mr. Moore stated that he would not like to have another situation like that which occurred with some of the investment managers where some could not proceed because of stringent insurance requirements. He inquired if the insurance requirements are laid out in the RFP. Mr. Abarro responded in the affirmative. He added that, if the Committee wished, staff could check to make sure the respondents meet all the minimum insurance requirements, Mr. Moore replied in the affirmative. He added that since some of the firms did not bid, potentially because of the insurance requirements, we are bound by the requirements listed in the RFP.

Mr. Canzano inquired if the Committee was comfortable with the criteria as laid out and stated that the Committee now needs to assign the weights. Mr. Moore replied that he would go over his suggested weighting of the Evaluation Criteria.

Mr. Vazquez asked for clarification of the change made to the Evaluation Criteria, asking if the second paragraph under Exhibit B would be moved under “Audit Approach and Strategy.” Mr. Moore replied in the affirmative, adding that the wording should be changed to add recognition of the more active role the Audit Committee plays, under the spirit of Sarbanes Oxley. He added he would like the future auditing firm to recognize this fact by, for example, speaking with the Audit Committee before they perform an audit, asking for issues, etc. Mr. Abarro agreed to make those changes to the Evaluation Criteria.

Mr. Vazquez asked how many requests were sent. Mr. Abarro responded staff sent the RFP advertisement to various publications such as the Wall Street Journal. Mr. Vazquez inquired if it was sent to individual firms. Mr. Abarro responded no, adding that this was a “blind” type of advertising. He added that because of the multitude of auditing firms, this was the most cost effective way to advertise. Mr. Moore asked if staff was surprised that we did not get any responses from the large firms. Mr. Abarro responded staff was not surprised based on the money involved in this type of project.

Mr. Vazquez asked for Mr. Moore’s proposed weightings. Mr. Moore responded, 20% for Relevant Technical and Industry Expertise, 10% for General Reputation of the Firm, 20% for Qualifications of Partners and Staff to be Assigned to Audit, 20% for Audit Approach and Strategy, 10% for Communication Process and 20% for Professional Fees. Mr. Abarro agreed, adding that fees should be no more than 20%.

Mr. Vazquez stated that he felt that the criteria for judging the oral presentation is very important. Chairman Canzano agreed stating the Committee could move Communication Process from 10 to 15%, and drop Professional Fees from 20 to 15%. Mr. Moore and Mr. Vazquez agreed with that change. Mr. Abarro also agreed.

Mr. Moore indicated that the next step would be for the Committee to agree to the process. He stated that although the next meeting was scheduled for December 21<sup>st</sup>, he recognized that Mr. Vazquez would be out of town and the Committee could change the date of this meeting. Mr. Moore added that the next step would be for each Committee member to evaluate the proposals against the Evaluation Criteria and come back and try to get a consensus. Mr. Vazquez made an inquiry regarding the process. Mr. Moore responded that ideally he felt the Audit Committee should interview the respondents. He inquired if the Committee should interview or bring it to the Retirement Board. Mr. Canzano also asked if staff would be involved in any of the evaluations. Mr. Moore replied that he felt that staff should not be involved in the evaluations because one of the purposes of the Audit Committee is to independently be involved in the oversight on the Audit side so that it is independent of staff.

Mr. Vazquez stated that he feels the Retirement Board should delegate the responsibility for the selection of the auditor, including interviewing, grading, etc., to the Audit Committee. Mr. Moore agreed, asking would the Audit Committee first schedule a set of interviews with the respondents and then have a follow-up meeting where the Committee would come to a decision, or could they combine this process into one meeting. Mr. Vazquez responded that he felt that this meeting could be combined -- read through the materials, have the interviews, and then confer and make a selection.

After discussion, it was determined that the Audit Committee would meet at 1:30 pm on Thursday, December 15, 2005, to interview the four respondents. The interviews would be scheduled at half-hour intervals. Mr. Vazquez asked Mr. Abarro to draft a set of 4 or 5 questions that the Committee could ask the respondents, adding they can ask any additional specific questions once they read through the RFPs. Mr. Abarro agreed.

Mr. Abarro inquired if the Committee would like staff to contact the respondents to set up the interviews. Mr. Moore replied in the affirmative.

The meeting was adjourned at 8:30 a.m.

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EUGENE CANZANO  
Chairperson

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RODY ABARRO  
Secretary

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IRENE COLÓN  
Recording Secretary