

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

**MEETING – February 15, 2006**

**Present:**

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

**Others Present:**

Sangeeta Bhatia	Retirement Plan Manager
Michael R. Wilkinson	Deputy City Attorney
Rody Abarro	Acting Assistant Retirement Plan Manager
Manoj Desai	Chief Accountant
Irene Colon	Recording Secretary

Chairman Canzano called the Audit Committee Meeting to order at 8:05 am.

Ms. Bhatia indicated a quorum of the Audit Committee was present.

**1. Approval of Audit Committee Minutes of December 15, 2005**

Ms. Bhatia noted that the minutes were e-mailed to the members of the Committee the day before. She stated the Committee could either approve them today or defer the approval until the next Committee meeting. Mr. Vazquez stated he would like to defer the approval until the next meeting. Chairman Canzano agreed.

**2. Continuation of the Interviews of the Respondents to the Request for Proposals to Conduct Annual Audits of Financial Statements and Perform Related Advisory Services for the Water and Power Employees' Retirement Plan and Possible Selection of the Plan's Auditors**

**a) Calibre CPA Group PLLC**

William Voorhees, CPA and Partner of Calibre CPA Group and Edilberto Ortiz of E.C. Ortiz & Co., LLP, approached the table.

Mr. Voorhees gave an overview of their firm stating the majority of their work is in the non-profit area and a great part of that is with employee benefit plans. He stated the plans they work with range from a couple of hundred million to 8 to 9 billion dollars. Mr. Voorhees commented that most of the staff in his firm spends 40% of the year doing plans similar to WPERPs, adding they work with all the major actuaries in the country. Mr. Voorhees noted they have worked with The Segal Company on many of the plans throughout the country both in Washington

and Chicago and also on the west coast. He indicated they also work with most of the custodial banks throughout the course of the year including Bank of New York and Mellon and well as State Street. Mr. Voorhees reported their firm also works with many of the investment managers noting that these are all components of a retirement plan. He continued going over how his firm performs their audits and the staff involved noting that their partners and managers also spend a great deal of time performing the audits. Mr. Voorhees explained his firm specializes in benefit plans of all sizes and types.

Mr. Ortiz gave a background of his firm, their experience, and how they interact with Calibre CPA Group, noting that his firm's involvement has been mostly on the government side.

Mr. Vazquez inquired if Mr. Voorhees will be part of the engagement team. Mr. Voorhees replied that at this time he is not, noting their lead partner, Glenn Eyrich, has just had open-heart surgery and was not able to attend the presentation. He clarified Mr. Eyrich will be the engagement partner.

Mr. Vazquez inquired if Calibre had any other California clients. Mr. Voorhees replied in the negative. Mr. Vazquez then asked Mr. Voorhees if the retirement laws and regulations differ from state to state and asked how his firm would deal with laws that may be unique to California. Mr. Voorhees replied, any uniqueness in California laws will be handled by their research department who will review all California laws to determine if there is anything in California law that is going to be unique compared to what their normal practices are. He noted that his firm has already looked into this and has not seen anything they would consider really unique in California vs. what his firm is accustomed to doing. Mr. Voorhees stated he had a copy of the Plan's 2004 and 2005 financial statements and has gone through them in great detail and reiterated that they do not see anything unique. He added that they will also meet with our general counsel to make sure they comply.

Chairman Canzano inquired if they have done work with the Utility Workers AFLCIO. Mr. Voorhees replied in the affirmative adding their firm has done a lot of work with them and many of the firms they have worked with in the past have been labor-related organizations. Chairman Canzano noted he saw quite a few funds with IBEW. Mr. Voorhees responded that this is out of the Washington D.C. and Chicago area, noting IBEW is one of the accounts he audits.

Mr. Vazquez commented that Mr. Voorhees stated their firm has at least one client that has \$8 billion in assets and 100,000 participants and asked who this client is. Mr. Voorhees responded IBEW Electrical Benefit Fund has more than that adding their largest pension funds are United Food and Commercial Workers' National Pension Plan, the Brick Layers' National Pension Plan, the Sheet Metal Workers' National Pension Plan, and the Operating Engineers' National Pension Plan noting all have multi-billions of dollars. Mr. Vazquez asked if his firm does audits for all these plans. Mr. Voorhees replied in the affirmative.

Mr. Moore stated Mr. Voorhees indicated they have three public employee plans they now audit. Mr. Voorhees replied they are auditing two in Chicago and they have just received one in Vermont. Mr. Moore commented several that were listed are no longer under their audit, for example, the Cook County Employees' Annuity and Benefits and the Firemen's Annuity and Benefit He added he assumed these are Chicago firms. Mr. Ortiz replied that his firm was also involved in these projects but is no longer doing these audits. Mr. Moore stated that during 1999 – 2001 they also did the audit for the State Employees' Retirement System. Mr. Voorhees stated that their office in Chicago split up with half of the employees staying with Calibre. He noted one of the partners listed in the engagement worked on those accounts and as the firms went their different ways the jobs were reallocated. Mr. Ortiz clarified that in the State of Illinois, auditors are rotated every six years, which is why Calibre is no longer doing the State Employee's Retirement System.

Mr. Vazquez asked when Calibre had their last peer review. Mr. Voorhees replied the last peer review was done in 2004 and they had a "clean letter." Mr. Vazquez stated this letter was not in the RFP response package. Mr. Voorhees replied that he would get the Committee a copy. He add that they received a "letter with no comment" which was done by a firm out of South Carolina, adding that the gentleman sits on the Peer Review Council for the AICPA. Mr. Vazquez added that their proposal states that they will absorb transition costs, which they estimate at 20 hours. He noted the firm is located out of Chicago and Washington D.C. and their estimated travel costs are about \$8,000. He stated, if Calibre is selected, the Committee would like to cap these costs. Mr. Vazquez asked them to elaborate on their firm's transition after the split-up inquiring how long their firm has been in business. Mr. Voorhees responded, in regards to the transition, some of the partners decided to break off and "go their own way." He stated some partners chose to stay with the firm and some partners started their own firm in Chicago. Mr. Voorhees added most of the people involved with this proposal have been practicing for quite some time. Mr. Vazquez inquired how they allocate their work in terms of their firm and Mr. Ortiz. Mr. Voorhees replied, on the fee structure side, Mr. Ortiz's firm would have approximately \$11,000 against about \$90,000.

Mr. Moore asked Mr. Voorhees to give the Committee more information on his firm's experience, e.g., how large is the firm, how long has it been around, and added he noted there was a strong Taft-Hartley focus based on their listing of clients. Mr. Voorhees responded their firm does have a strong Taft-Hartley focus and has for many years. He added the firm had its early beginnings in Washington D.C. back in the late 30s and been operating under a number of different names through mergers, etc. for over 60 years. Mr. Voorhees restated that they do a lot of Taft-Hartley, such as corporate accounts, large construction companies, hotels, and typical non-profits like the Humane Society of the United States, which are large membership organizations. He added the unique thing about his firm is that they are able to be very interchangeable with staff people because they do so much of this work. Mr. Voorhees stated that much of their

continuing education program is geared in this direction adding that they all attend classes dealing with investments, actuarial work and they do joint seminars with actuaries to try to educate their clients on what is new and what is forthcoming. He commented that they do a lot of work with law firms that specialize in this area and added that a lot of their knowledge comes from working with all these professionals that they deal with throughout the years. As to Mr. Moore's question regarding the firm's size, Mr. Voorhees replied they have about 75 people in Washington and about 25 – 30 in Chicago.

Mr. Vazquez indicated he noted Calibre is affiliated with an AICPA group and a couple of international groups specializing in employee benefit plans. Mr. Voorhees replied they do work for the International Foundation of Employee Benefits Plan and they also present and speak at the foundation.

Mr. Moore stated, given the preponderance of their Taft-Hartley experience, but recognizing they have had a number of government clients as well, he noted Calibre has had to work under both FASB and GASB accounting standards. He asked Mr. Voorhees the difference between the two from the perspective of the auditor that has to conduct these audits. Mr. Voorhees replied the biggest difference is the breakdown of the funds. He noted in a Taft-Harley or a pure corporate pension plan, you are not breaking down the estimated liabilities for retirement allowances -- by the member totals or the corporate totals -- they are all combined together. Mr. Voorhees pointed out you are looking at net assets available for benefits -- after deduction of your actuarial liabilities. He stated funds such as the WPERP, is actually closer to fund accounting in the non-profit world where you are actually creating "buckets" one for your employer side and one for your employee side and, as the monies come in, you account for them by employer and employee. This is not done in the Taft-Hartley Plan. You show member contributions and employee contributions -- two line items -- and after that it runs straight down. Mr. Voorhees noted you also do not have the management discussion and analysis as part of the financial report; it is done as a supplemental report. He pointed out these are the biggest areas of reporting difference adding he likes the management, discussion, and analysis section because it gives the reader a better understanding of what is going on but these are not in the Taft-Hartley. He stated this comes out only in a supplemental report and usually addressed to people like the Audit Committee and does not have to be made public. Mr. Voorhees stated he does not feel this would cause any additional problems or work for his firm as they would analyze everything that is already there, whether they had a report on it or not. Mr. Moore commented that one of the questions that remained opened was whether or not they have staff that meets the California licensing requirements and asked if there are specific requirements for licensing in California. Mr. Voorhees replied in the affirmative adding that he was the person from Calibre already licensed in California.

Mr. Moore commented that they were a relatively new Audit Committee and are still evaluating for themselves what their charter should be. He added the Committee can be influenced by the private sector and Sarbanes Oxley but are not sure they want to “buy into it” in its entirety since they are not required to as a public entity. Mr. Moore asked Mr. Voorhees what thoughts he had as to the appropriate role for an Audit Committee given the issues they are facing right now. Mr. Voorhees replied audit committees have been around for a long time, but people have now gotten very serious about audit committees adding they serve a very good role. He informed the Committee that Calibre had a lot of material they would send to the Committee regarding audit committees. Mr. Voorhees pointed out that whatever you do as an audit committee you want to protect the plan, such as what the Audit Committee was doing today, interviewing auditors. He stated you do not want to go out and just “grab” the Sarbanes Oxley Audit Committee Plan that some corporation put into place that has everything that you can think of because once you do that you are then required to follow it and may be going overboard on doing things that are not necessary. Mr. Voorhees continued, the Audit Committee needs to define what they need to do and then obviously follow through with it. He added the worst thing to do is to say you are going to do “X” and then not follow through with it. He stated the simple answer is, you want to understand what is going on in the world of finance. Mr. Voorhees explained if you understand it, you’ll do the right thing noting you get into trouble when you don’t understand something. He added you want to work with people who will take the time to sit down and explain things to you, no matter how long that takes. Mr. Voorhees stated the Audit Committee needs to really work with their professionals to make sure that they understand everything and foster a feeling that you want to work for the Plan so people will come to you and tell you what is going on. He stated he noted while taking the ethics exam for California a lot of the answers to questions were, “take it to the Audit Committee.” You want to ensure if someone sees something that is wrong, they feel free to take it to the Audit Committee so you can be the judge.

Mr. Canzano inquired what their expertise is with regards to information technology and how their firm looks at systems to make sure the computer systems are properly recording and transactions are checked. Mr. Voorhees replied they audit through the computer system and they have staff in their firm familiar with the computer systems who can look at the programs, the technology and the documentation of the system. He added whenever they get to the point where they find a system or an area that might be out of their expertise, they have a long list of consultants that they bring in at their cost to answer any questions. Mr. Voorhees explained they look at the computer system like any other functioning operation -- they look at the controls, the documentation, they test through it, around it, actually look at the code structures, and look at the back-up and the disaster recovery. He stated they deal with a lot of clients who are using a lot of lot of different software. Mr. Ortiz added that one of the seniors that will be working with the Calibre group is a certified information systems auditor.

Ms. Bhatia stated that Mr. Voorhees indicated he was licensed in the state of California and asked if he was a partner. Mr. Voorhees replied in the affirmative. Ms. Bhatia noted that this would bind the firm and allow them to practice in California. Again, Mr. Voorhees replied in the affirmative.

Chairman Canzano thanked the representatives from Calibre CPA Group and E.C. Ortiz & Co., LLP and they left the table.

Mr. Vazquez inquired of Mr. Wilkinson if the Audit Committee could disband and resume later in the afternoon. Mr. Wilkinson replied in the affirmative adding that as long as this is announced and a notice is placed downstairs. Mr. Vazquez stated he would like to resume their discussion after their regular Retirement Board Meeting. The other Audit Committee members agreed.

After the regular Board Meeting, Chairman Canzano announced that they were not going to be able to reconvene so the Audit Committee adjourned at 12:10 pm.

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EUGENE CANZANO  
Chairperson

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SANGEETA BHATIA  
Secretary

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IRENE COLÓN  
Recording Secretary