

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

MINUTES

December 19, 2007

Committee Members Present:

Eugene K. Canzano, Chairperson
Mike Moore, Audit Committee Member
Ron Vazquez, Chief Financial Officer

Others Present:

Sangeeta Bhatia, Retirement Plan Manager
Monette Carranceja, Assistant Retirement Plan Manager
Mary Higgins, Assistant Retirement Plan Manager
Michael Wilkinson, Deputy City Attorney
Irene Colon Gonzalez, Utility Executive Secretary

The meeting was called to order at 8:40 a.m.

Ms. Bhatia indicated quorum of the Audit Committee.

Mr. Canzano stated that there were no public comments.

1. Presentation and Discussion of Audit Report and Financial Statements as of June 30, 2007, by Macias, Gini & O'Connell and Possible Action

Ms. Bhatia introduced Mr. Godsey and Mr. Livingston, representatives from Macias Gini & O'Connell, CPAs, and stated they would be presenting the audit report for fiscal year end June 30, 2007. Ms. Bhatia added that Retirement staff did not have a chance to see the final version of the report.

Mr. Godsey informed the Committee that Macias had encountered problems with time issues. He stated, the Management Letter was the only item that was still outstanding. He stated that he understood Ms. Bhatia was not comfortable signing it the previous day and may not have had the chance to adequately review it. He indicated there was also an issue that involved the decision made this year to use the actuarial evaluation done by Segal Co. on the Retiree Health Benefits Fund (RHBF).

Mr. Godsey explained out that this year's financial statements were different for two reasons. He noted this was the first year that there was a separate report, financial statement and required note disclosures for the RHBF. He added the Department had recently begun funding the RHBF and the Retirement System is acting as the administrator of the retiree medical benefits.

The second change this year noted by Mr. Godsey was that under the new standards, there was a possibility that part of the Disability and/or Death benefits could be considered OPEB (Other Post Employment Benefit) under GASB 43 (Government Accounting Standards Board) reporting standards. He added that ultimately, there was a determination that the Disability and Death benefits were pension benefits as opposed to OPEB benefits but a segment of the Death benefit qualifies under the pension standards as opposed to the more traditional reserve

methodology historically used by the Department. Mr. Godsey stated this required a separate actuarial evaluation to be done by the Plan's actuary, Buck Consultants. He further added the evaluation was incorporated in the report.

Mr. Godsey explained there were a number of issues on which they went back and forth with the actuary, legal counsel, the City and City experts. He explained the issues were complex and Macias wanted to make sure they were addressed.

Mr. Godsey informed the Board that an outstanding issue involved the assumptions used in the actuarial evaluation and the Board's and Retirement management's agreement with these assumptions. He noted the actuarial evaluation was contracted by the Department and so questions arose as to whether Retirement management or Department management would take responsibility. He said he stated his concern back in June 2007, when this was discussed with the Committee and management. He explained these were Retirement's financial statements and as such, Retirement management had to take responsibility for these financial statements and its key items. He added it did not make any difference for him whether management placed reliance upon the Department or specific individuals of the Department as long as management was comfortable taking responsibility for key assumptions and added that all the assumptions dealing with actuarial evaluations are considered key assumptions.

Mr. Godsey directed his questions to Ms. Bhatia as to whether this issue was still a concern with her. Ms. Bhatia stated that management is required to sign a representation letter, which was received from Macias two days ago, and the letter did not include this item concerning Retirement's reliance on the Department's actuary for the valuation of the RHBF. She noted, this issue was clearly discussed last year along with the necessity for it to be included; however, the representation letter did not have it. Ms. Bhatia further stated that the representation letter of the Retirement Plan should clearly indicate that it pertains to the Retirement Plan only.

Ms. Bhatia added that the auditor's delayed submission of the management representation letter to the Retirement Office did not provide ample time for its review. Ms. Carranceja provided the Board a timeline of when the auditors provided the management letter and the financial statements to the Retirement office, and expressed concern.

Mr. Vazquez stated that the representations dealing with the RHBF were discussed in previous audit committee meetings and added that he or Mr. David Ulm, the Department's Controller, can sign to attest to these representations. He also stated these financial statements are late since there are deadlines for its incorporation in the City's Comprehensive Financial Statements.

In response to Mr. Vazquez' question on whether there will be separate opinions for the four separate funds, Mr. Godsey responded that there will be one opinion that will address all four funds in one document. Mr. Vazquez also asked if the matter concerning the Death Benefit Fund being covered under GASB 45 was a new issue this year or not addressed in the past. Mr. Godsey stated that it was not addressed in the past and noted that the Retirement Office's fiduciary counsel had opined that the Death Benefit Fund was GASB 25, which are pension benefits.

Mr. Moore recalled that in the last audit committee meeting, the Death Benefit was going to be handled as an OPEB and inquired when it changed and when the City Attorney's Office got involved. Mr. Livingston responded that there was a meeting in October with the Retirement Office's fiduciary counsel Bob Klausner. Mr. Godsey added that there may have been internal discussions as to whether the Death Benefit fund was OPEB or Pension. He added that his bigger concern that there was going to be more impact on the reporting by the Department than the Retirement Office's reporting.

Mr. Moore asked Mr. Vazquez regarding the Board and Committee's role with respect to the audit report and financial statements. Mr. Vazquez responded that the Board and Committee's role was to accept the audited financial statements furnished by the independent auditors and there is input to change the audit opinion and the findings. He added the auditors render an independent opinion based on their audit and findings under guidelines. Mr. Vazquez stated the financial statements are prepared by management and the auditors issue an audit opinion.

Mr. Moore asked for further clarification on the Board's role specifically asking if it ever gets to a Board level where the Board may disagree with whatever the auditors have worked out with management on issues and the Board wanting input in the decision. Mr. Godsey responded that Boards or Committees typically receive and file the report but this has begun to change due to Sarbanes-Oxley and SEC rules. He indicated that in the next few years, audit committees may be playing a more active role.

Mr. Moore mentioned that he was concerned with the timing of the audit report. Mr. Godsey stated that he was concerned with the timing as well and added there were some reports that were received late. He indicated he would release the report when the management representation letter was signed. Ms. Bhatia stated the report has not yet been provided to the Retirement Office and no discussions had been held concerning the auditor's recommendations and findings.

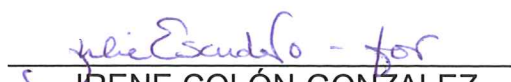
Mr. Godsey stated there are other reports that will be provided to the Retirement Plan such as the report on internal controls and the required communications. He indicated that after Macias' receipt of the management representation letter, the opinion would be issued. He added Macias would be issuing an unqualified opinion.

Mr. Canzano expressed his concern on the timing of the financial statements, adding that historically, the Retirement Plan had been the first to submit the statements to the Controller's Office. He noted receiving reports the day of the meeting is a concern. Mr. Godsey again informed the Board of various items that caused the delay. Mr. Vazquez suggested moving forward and working on improving the timing of next year's report. Mr. Godsey stated that once Macias had received the management representation letter, the financial statements would be provided for submission to the Controller's Office.

The meeting was adjourned by Mr. Canzano at 9:25 a.m.


EUGENE K. CANZANO
Chairperson


SANGEETA BHATIA
Retirement Plan Manager


IRENE COLÓN-GONZALEZ
Utility Executive Secretary