

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

MINUTES – February 6, 2008

Present:

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

Others Present:

Sangeeta Bhatia	Retirement Plan Manager
Monette Carranceja	Assistant Retirement Plan Manager
Michael R. Wilkinson	Deputy City Attorney

Chairman Canzano called the Audit Committee Meeting to order at 9 a.m.

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

There were no public comments.

1. Discussion of Action Plan in connection with the Annual Financial Audit for Fiscal Year 2007-2008 and Possible Action

Ms. Bhatia updated the Committee on the difficulties experienced by the Retirement Staff in working with Retirement Plan's (Plan) auditors, Macias Gini & O'Connell (Macias). She reported that Macias' interactions had been unprofessional but more importantly, Macias had not been able to deliver the reports timely causing the delay in the Plan's submission of the financial statements to the Controller's Office particularly this last year. Ms. Bhatia noted that this item is being brought before the Committee for discussion and consideration of an alternative approach to address the issues with Macias. She informed the Committee that Staff had discussed these issues with the City Attorney's Office and one of the legal approaches suggested was to go back to the RFP and determine the other finalist. Ms. Bhatia informed the Committee that Simpson and Simpson (Simpson) was one of the bidders. She stated she had made preliminary contact with them and they had indicated their interest in working for the Plan. She added Simpson requested a revision of the fees they initially quoted in the RFP because it did not include the audit of the retiree health fund and new pronouncements had since been released such as Statement on Auditing Standards 112.

Mr. Moore asked if staff prepared a timeline since Macias conveyed that one of the issues was the delay in their receipt of the health fund actuary report. He stated he was under the impression earlier copies were provided to Macias. Ms. Carranceja informed the Committee that a hard copy was provided to Macias on October 1, 2007 and a soft

copy was e-mailed on October 11, 2007, earlier than the November 13, 2007 receipt date reported by Macias. Ms. Higgins added that the delay of the Death and Disability actuary report was caused by Macias because they were uncomfortable with the advice of the Plan's tax counsel and so they repeatedly raised more issues to staff.

Mr. Moore inquired if the fees quoted by Simpson are comparable with the fees of Macias. Ms. Bhatia stated Simpson's fees are comparable and are in fact a little bit less than Macias. However, these were preliminary quotes and had not been discussed in detail with Simpson.

Mr. Vazquez recalled the fees initially quoted by Simpson in the RFP were significantly less than Macias' fees. He further added that Simpson had prior experience with the Retirement Plan and they are currently the auditors for the City which would facilitate the coordination and completion of this audit. Mr. Vazquez expressed he had never experienced anything like this in forty-some years where there had been so much confrontation between a client and auditor and he thinks that it was probably best to change. He requested a summary of the Committee's decision to change auditors the last time.

Mr. Canzano stated his recollection that the Committee's decision to change auditors was due to its interest in using Sarbane's Oxley as a pattern. He added one of the Committee's major concerns was the length of time Simpson had been auditing the Plan and one of the directives of Sarbanes Oxley is to periodically change auditors. He noted this weighed heavily on the decision and staff had recommended either firm could certainly handle the job. He mentioned he recalled Macias was ranked only a point or two higher so both firms were substantially equal in rankings. He stated that Simpson had been the auditors for the Plan for such a long time and that counted against them and the Committee thought that it would be good to make a change.

Mr. Moore added that another element was the Audit Committee's status as a relatively new committee. He stated that at that time, it was emphasized to Simpson to communicate to the newly created Audit Committee but they really did not talk to the Committee that much. Mr. Moore noted one emphasis he wants to pass on to Simpson, if the Committee agrees select them, is that there should be a conversation with them of the need to work with this Audit Committee.

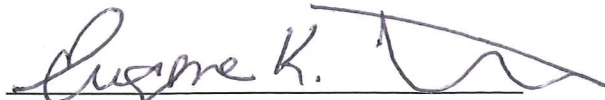
Mr. Canzano indicated he strongly believes Macias, the Plan's auditors for two years, did not discover any of the things that Sarbanes Oxley was set up to catch. He expressed he was extremely disappointed with the confrontational nature and the lack of timeliness of the last two audits.

Mr. Moore moved for staff to negotiate contract terms with Simpson and bring a final recommendation to the Board for action. Seconded by Mr. Vazquez and carried unanimously after the following vote:

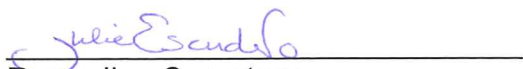
Ayes: Canzano, Moore and Vazquez
Nays: None

Mr. Vazquez inquired about the contract term. Attorney Wilkinson clarified this is a brand new contract with Simpson. He noted that at this point, an RFP is not required for a three-year term but it would be prudent to have an RFP beyond the three years versus doing another three-year extension.

The Audit Committee adjourned at 9:30 a.m.


EUGENE CANZANO
Chairperson


SANGEETA BHATIA
Retirement Plan Manager


Recording Secretary