

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

**MINUTES**

**October 22, 2008**

**Committee Members Present:**

Eugene K. Canzano, Chairperson  
Mike Moore, Audit Committee Member

**Committee Members Absent:**

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  
Julie Escudero, Utility Executive Secretary

The meeting was called to order at 9:13 a.m.

Ms. Bhatia indicated quorum of the Audit Committee.

Mr. Canzano stated that there were no public comments.

**1. Presentation by Simpson & Simpson, CPAs, of the Annual Audit Report and Related Financial Statements, as of June 30, 2008 – Discussion and Possible Action**

Ms. Bhatia introduced the auditors, Simpson & Simpson, and stated they would be presenting the audit report and the financial statements for fiscal year ended June 30, 2008.

Mr. Brainard Simpson, Ms. Grace Yuen, and Mr. Frank Liu approached the Board.

Mr. Simpson informed the Board about the objective of the audit and indicated that one of their responsibilities under the Generally Accepted Auditing Standards was to form and express an opinion about whether the financial statements that have been prepared by management with the oversight of those charged with governance are presented fairly, in all material respects, in conformity with generally accepted accounting principles. He added that the audit was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements were free of material misstatement. He also stated the audit of the financial statements did not relieve management, or those charged with governance, of their responsibilities.

Mr. Simpson informed the Board that an evaluation of significant accounting policies and accounting estimates used by management had been performed. He also added that Simpson & Simpson staff had evaluated the financial statement disclosures to make sure that the notes were adequate and disclosures provided the appropriate information.

Mr. Simpson reported no significant unusual transactions transpired, no significant audit adjustments had been proposed, no major issues discussed in connection with their retention as auditors, no disagreements with management, and no significant difficulties encountered during the audit. He also stated that they were not aware of management's consultation with other accountants regarding the audit and accounting matters.

Mr. Simpson noted that Simpson & Simpson was presenting a report with an unqualified opinion. He added that the report also included the Statement of Plan Assets, Statement of Changes in Plan Assets, and Notes to the Financial Statements and that the report incorporated the requirements under the new Government Accounting Standards Board (GASB) 50. He emphasized to the Board that there was a significant decline in net assets of about \$0.5 billion and also a decline in investment income of approximately \$1.4 billion.

Mr. Moore asked if the sentence in the second paragraph of the audit report concerning consideration of internal control was a new addition to the report. Ms. Yuen responded that this sentence has been historically present in the auditor's report. Mr. Moore asked where the auditors draw the line in their assessment of internal control. Mr. Simpson responded that considerable work is involved if the internal control is to be assessed and an internal control audit is to be performed. He added that the auditors provide an opinion based on the design of the internal control system but not on the overall effectiveness and accuracy.

Mr. Moore inquired about the Management Letter. Mr. Simpson responded that the Management Letter had not yet been prepared. Mr. Simpson added they found no significant deficiencies and no material weaknesses, but they did find a few accounting errors involving benefit payments processed which lacked authorizations. He noted that these items were procedural and not significant.

Mr. Canzano expressed his gratitude to the Simpson & Simpson representatives for their audit work and also acknowledged staff's work on this audit. He asked Simpson & Simpson if the Retirement Plan's financial status is in-line with the current financial situation and how the Plan measures against other retirement plans. Mr. Simpson responded the impact on each plan is based on its investment strategy. Ms. Yuen added the Retirement Plan is heavily invested in mortgage-backed securities and real estate, and the investment is higher than other plans.

Mr. Moore asked details regarding the types of securities included in the \$904 million listed under mortgage and asset backed securities on page 34. Ms. Bhatia stated staff would look into this.

Mr. Canzano indicated that the change of the auditors was done in accordance with Sarbanes-Oxley provisions. He added that the audits of the past two years did not reveal any problems, and he was pleased Simpson & Simpson was back as the Plan's auditors.

Ms. Bhatia acknowledged the work of Accounting Section staff members Manoj Desai, Chief Accountant, and Ed Valbuena, under the oversight of Monette Carranceja.

Mr. Moore moved the adoption of the audit report. Seconded by Mr. Canzano and unanimously carried after the following vote.

Ayes: Canzano and Moore

Nays: None

The meeting adjourned at 9:37 a.m.



EUGENE K. CANZANO  
Chairperson



SANGEETA BHATIA  
Retirement Plan Manager



JULIE ESCUDERO  
Utility Executive Secretary