

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

MINUTES

July 16, 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
Julie Escudero, Utility Executive Secretary
Michael Wilkinson, Deputy City Attorney
Sarah Bernstein, Pension Consulting Alliance, Inc.

The meeting was called to order at 9:11 a.m.

Mr. Canzano reported no public comments.

DISCUSSION OF AUDIT FOR FISCAL YEAR ENDING JUNE 30, 2008

Ms. Bhatia indicated a quorum of the Audit Committee.

Mr. Canzano reported no public comments.

Ms. Bhatia stated this meeting was to discuss the audit for the fiscal year ending June 30, 2008, by Simpson and Simpson, CPAs (Simpson & Simpson). She introduced Ms. Grace Yuen and Mr. Frank Liu from Simpson & Simpson and indicated this was also an opportunity for the Audit Committee to discuss any significant areas of concern in connection with the upcoming audit and future audits.

Ms. Yuen explained the scope of Simpson & Simpson's work was the audit of the Retirement, Disability, Death and Retiree Health funds. She discussed the audit timeline and added they expected the draft report to management would be provided on October 3, and the presentation of the report to the Audit Committee was scheduled for October 15.

Ms. Yuen explained the audit process included confirming an understanding of the internal control environment and procedures, interviewing management personnel and Audit Committee members to discuss areas of control risk and fraud risk, and determining if any fraud risks exist in the Plan. She also discussed Simpson and Simpson's staffing plan for the audit work.

Ms. Yuen also informed the Committee that a number of new auditing standards would be implemented in the current year, some of which concerned risk assessment standards that would require the auditors to assess not only fraud risk but also control risk in determining the audit scope. She added that the Statement of Auditing Standards (SAS) 114 required communications with the governing board such as the Audit Committee.

Mr. Moore stated he wanted to emphasize the role of the Audit Committee and noted the auditors work for the Committee, which is a representative of the Board, and not for Retirement Office management. He added the Committee is interested in the auditors' observations, especially the recommendations in the management letter and control risks that need to be addressed. He also stated he liked the auditors' focus on communications. He requested the Audit Committee be provided the draft audit report prior to the Committee meeting to allow sufficient time for review. Ms. Bhatia confirmed the draft would be sent to the Audit Committee members prior to the meeting.

Mr. Moore asked Simpson & Simpson if they were comfortable with the schedule. Ms. Yuen responded she was concerned the actuarial report might not be delivered in a timely manner and that could impact the schedule. Ms. Bhatia noted this has been a concern in the past, and she added that a published report in one of the prior years included a note indicating the numbers used were from the draft actuary report as opposed to the final report. Mr. Moore inquired about the status of the actuarial report for the Retiree Health Benefits Fund (RHBF). Ms. Bhatia responded the Retirement Office would coordinate with the Department's Financial Services Office.

Mr. Canzano mentioned this would be the first time for Simpson & Simpson to work on the RHBF portion of the audit, and he was interested in a brief meeting with the auditors to discuss a certain portion of the audit to help him better understand the audit process. Ms. Bhatia asked if this should be an Audit Committee meeting. Ms. Yuen commented that Simpson & Simpson could accommodate Mr. Canzano's request. Mr. Wilkinson cautioned if more than one Board member was involved, it would constitute a quorum of the Committee; therefore, notice of meeting requirements would apply.

Mr. Canzano mentioned that the Controller's Office had begun a separate audit, and the interview they conducted with him concerned the Board's involvement in the daily operations of the Retirement Office. He requested Simpson & Simpson provide him with any information on this. Ms. Carranceja inquired when the interviews with the Audit Committee members would be held. Ms. Yuen responded the target dates were the following week.

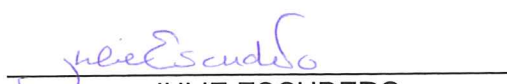
Mr. Moore inquired about the status of the Retiree Health Benefits actuary report, to which Ms. Bhatia responded that staff would check.

Ms. Yuen asked if the Committee members wanted the auditors to focus on any particular areas, issues, or concerns. Mr. Moore requested a focus on controls on the investments side, similar to the study recently completed by Deloitte and Touche. Ms. Yuen indicated they would look at that.

Mr. Canzano thanked the auditors and adjourned the meeting at 9:30 a.m.


EUGENE K. CANZANO
Chairperson


SANGEETA BHATIA
Retirement Plan Manager


JULIE ESCUDERO
Utility Executive Secretary