

AUDIT COMMITTEE MINUTES 11-17-10

2010 COMMITTEE MEMBERS

PRESENT

Simon S. Russin, Chair
Ed C. Morris, Vice Chair
Estevan R. Valenzuela, Secretary
John Barger

ABSENT

Les Robbins
Herman B. Santos

ALSO ATTENDING:

BOARD MEMBERS AT LARGE

None

AUDIT COMMITTEE CONSULTANT

Timothy O'Brien

STAFF, ADVISORS, PARTICIPANTS

Gregg Rademacher
Richard Bendall
Janice Golden
Robert Hill
Beulah Auten
Kim Hines
Sarah Marks
Ted Granger
David Redman
Elvia Gonzalez
Ruwen Liu
George Lunde
Sylvia Botros
Leisha Collins
Nathan Amick

I. APPROVAL OF THE MINUTES OF THE REGULAR AUDIT COMMITTEE MEETING OF AUGUST 11, 2010

Mr. Valenzuela made a motion to approve the March 17, 2010, Audit Committee Meeting minutes as prepared. The motion was seconded by Mr. Barger and passed with a unanimous vote.

II. PUBLIC COMMENT

No items to report.

III. REPORTS

A. Brown Armstrong Presentation of the Audited Financial Reports for Fiscal Year Ended June 30, 2010

Presentation by: Brown Armstrong, Certified Public Accountants

Connie Perez, Partner

Eric Berman, Partner

Connie Perez, CPA, Partner, of Brown Armstrong, presented LACERA's FYE 6/30/10 audited financial statements. Ms. Perez discussed the purpose of the audit, the audit process, significant audit areas/scope of work, the audit report, and required communications. LACERA's Financial Statements were given an unqualified opinion; there were no material weaknesses or significant deficiencies reported.

Mr. Berman discussed LACERA's implementation of Governmental Accounting Standards Board (GASB) statements' #51, Accounting and Financial Reporting for Intangible Assets, and #53, Accounting and Financial Reporting for Derivative Instruments. Compliance with statement #53 is now required of all government agencies.

Mr. Berman discussed various topics with the Audit Committee, including; the inclusion of derivative values in LACERA's financial statements, the series of reliance undertaken when performing an audit, how private equities are valued on LACERA financials, new GASB projects regarding the fair market valuation of investments, possible changes in pensions accounting and reporting, discount rates when assessing liabilities, multiple employer cost sharing

plans, member centric reports, and International Financial Reporting Standards.

Mr. Barger also discussed, with the Audit Committee, the question of including Star COLA reserves in the determination of LACERA's actuarial funding, the history of the Star Cola funds, and possible uses of Star COLA funds.

B. Internal Audit Staffing Report

Richard Bendall, Chief Internal Auditor

Mr. Bendall briefly discussed staffing changes within Internal Audit.

C. LACERA Internal Audit External Quality Assurance Report

David MacCabe - Consultant

Leisha Collins, Senior Internal Auditor presented Internal Audit's External Quality Assurance Review (QAR) report, performed by Dave MacCabe, Consultant. The presentation included background information on QAR's, procedural steps performed in Internal Audit's QAR, a summary of Internal Audit's QAR Report, and recommendations from the QAR report.

As a result of the QAR, LACERA's Internal Audit Division received the highest possible opinion of "Generally Conforms", as set forth by The Institute of Internal Auditors.

D. Audit Plan Status Report — YTD ending October 31, 2010

Richard Bendall, Chief Internal Auditor

Sarah Marks, Principal Internal Auditor

Richard discussed Item D, the Audit Plan Status Report — YTD ending October 31, 2010, and Item E, the Summary of Significant Work Completed/In- Progress Since Last Audit Committee Meeting [As of October 31, 2010], concurrently.

Richard discussed the Benefits Purchases and Plan Transfer audit, High Risk Payee review, Retirement Benefit Process audit, and New Payee Reconciliation audit.

A question regarding a back log of retirement requests was asked. At this time, Assistant Executive Officer, Robert Hill, informed the Committee of plans to bolster production in both Claims Processing and Member Services, which includes the hiring of ten new employees. Mr. Hill reminded the Committee, it takes a year to fully train Claims Processing and Member Services staff, before they may be put on the production floor. Plans for Internal Audit to consult with Claims Processing on the development and definition of process procedures, were discussed.

Mr. Bendall identifying additional projects planned or in progress, by division. For projects not yet in progress, Mr. Bendall identified the next ten upcoming projects. A brief discussion on how Internal Audit identifies, prioritizes, and allocates audit hours to various projects ensued.

E. Summary of Significant Work Completed/In-Progress Since Last Audit Committee Meeting [As of October 31, 2010]

Richard Bendall, Chief Internal Auditor

The Summary of Significant Work Completed/In-Progress Since the Last Audit Committee Meeting was including in the prior discussion of the Audit Plan Status Report.

F. Status of Other External Audits Not Conducted at the Discretion of Internal Audit — LACERA's Member Services Call Center Audit

David Redman, Senior Internal Auditor

(Memo dated November 4, 2010)

No items to report

IV. ACTION ITEMS

- A.** Recommendation as submitted by Richard Bendall, Chief-Internal Audit and Leisha Collins, Senior Internal Auditor: Approve the revised Internal Audit Charter as presented. Leisha Collins presented a revised Internal Audit Charter, to the Committee for approval. Leisha discussed the revisions made as a result of the external Quality Assessment Review.

Mr. Barger moved to approve the revised Internal Audit Charter as presented. The motion was seconded by Mr. Morris and passed with a unanimous vote.

V. FOR INFORMATION ONLY

- A.** Institute of Internal Auditors — The Audit Committee: Internal Audit Oversight

Richard Bendall highlighted the "Ten Point Oversight Checklist" that he thought the Committee members may find useful.

VI. CONSULTANT COMMENTS

Timothy O'Brien – Audit Committee Consultant

Mr. O'Brien commented that Mr. Berman of Brown Armstrong is a great asset to LACERA and congratulated Internal Audit on the results of the QAR and the "Generally Conforms" status.

VII. GOOD OF THE ORDER

Committee members wished staff and management a happy Thanksgiving.

VIII. CLOSED SESSION (Pursuant to Government Code Section 54957)

A. PUBLIC EMPLOYEE PERFORMANCE EVALUATION

Title: Chief-Internal Audit

IX. ADJOURNMENT