

Minutes of the Audit Committee

**REGULAR MEETING OF THE AUDIT COMMITTEE
AND BOARD OF RETIREMENT AND/OR BOARD OF INVESTMENTS***

**LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
300 N. Lake Avenue, Suite 810
Pasadena, CA 91101**

December 1, 2011 – 9:00 a.m.

2011 COMMITTEE MEMBERS

Present: Simon S. Russin, Chair
Michael Schneider, Vice Chair
John Barger, Secretary
Edward C. Morris

Absent: Les Robbins

BOARD MEMBER AT LARGE

None

AUDIT COMMITTEE CONSULTANT

Timothy O'Brien

STAFF, ADVISORS, PARTICIPANTS

Janice Golden	Sarah Marks
Robert Hill	Leisha Collins
Richard Bendall	George Lunde
Beulah Auten	David Redman
Kimberly Hines	Darla Vidger
Jeannine Smart	Sylvia Botros
Cassandra Smith	Elvia Gonzalez
Ted Granger	
Gloria Harriel	
Cindy Guider	
James Beasley	
James Pu	
Robb Van Der Volgen	

I. APPROVAL OF THE MINUTES OF THE REGULAR AUDIT COMMITTEE MEETING
OF July 20, 2011

A motion was made by Vice Chair Schneider and seconded by Chairman Russin, to approve the Audit Committee minutes prepared for the July 20, 2011 meeting as presented. The motion passed with Chair Russin and Vice Chair Schneider voting aye, with Mr. Barger abstaining.

II. PUBLIC COMMENT

No Items to Report

III. REPORTS

A. Brown Armstrong Presentation of LACERA's Financial Reports for Fiscal Year
Ended June 3, 2011

Presentation by: Brown Armstrong, Certified Public Accountants
Andy Paulden, Managing Partner
Connie Perez, Partner
Eric Berman, Partner

A presentation was given by Mr. Paulden, CPA, Managing Partner for Brown Armstrong in relation to Brown Armstrong's audit of LACERA's fiscal year end June 30, 2011 financial statements. Mr. Paulden's presentation covered the purpose of the audit, audit process, significant audit areas/scope of work, and the audit reports.

Mr. Barger, inquired about the types of issues that have come about in relation to the valuation of investment related earnings and how these issues were addressed by Brown Armstrong. Mr. Paulden stated that the issues were related to unique investments, which include, Private Equity, Alternative Investments, and Real Estate Valuations.

Mr. Paulden stated that LACERA's Financial Statements were given a clean opinion otherwise known as an unqualified opinion; there were no material weaknesses or significant deficiencies reported.

Mr. Schneider inquired about the types of issues that would be brought to the attention of the Chairman of the Audit Committee and/or Board directly instead of being presented in a public forum. Mr. Paulden stated that any such instances of fraud or lack of responsiveness from members of the organization in the audit process would be reported.

Mr. Schneider also asked about the reporting impact the International Generally Accepted Accounting Principles (GAAP) may have on LACERA. Mr. Paulden and

Mr. Berman responded stating the International GAAP would not impact government agencies but would affect other U.S. Entities. Mr. Berman also stated that foreign governments adopt U.S. GAAP standards and not the reverse as their financial systems are not as strong as the U.S.

Mr. Schneider brought up the issue of volatility impact on asset valuation and asked if Mr. Paulden had any comments on the topic. Mr. Paulden explained if volatility causes a significant movement in the market, Brown Armstrong has the responsibility of disclosing the current trend. He also stated that no disclosures were necessary for LACERA's current financial statement.

Mr. Barger asked for clarity regarding the STAR COLA recommendation and guidance previously provided by Mr. Berman and how management handled the issue. Mr. Berman stated that potential options were provided for management and board review. His recommendation stated the assets that are included as part of the valuation should be included as part of the overall actuarial valuation/calculation.

Mr. Russin asked if successful Securities Litigation were accounted for in LACERA's reporting. Mr. Paulden responded that settlements and punitive damages are recorded as an investment income.

A discussion was raised by Mr. O'Brien, Audit Committee Consultant, regarding the International GAAP. He stated that these standards do not impact LACERA's financial statements but does affect asset advisors in relation to financial statements held to international accounting standards. He also explained that international standards are principal based and U.S. standards are rule based.

Ms. Perez updated the Committee regarding the status of the financial statement audit. She discussed the valuation and due diligence procedures utilized during the audit process. It was deemed that LACERA had adequate procedures in place for the FYE 6/30/11.

Mr. Berman presented on the new accounting and auditing pronouncements that have been adopted in 2011 or will be adopted in 2012. In 2011, Statement No. 59 was adopted which relates to disclosures. In 2012, Statement No. 63 will be implemented, which only results in revisions to the titling of LACERA's financial statement. The balance sheet will be referred to as the "Statement of Plan Position" while the Income Statement will be referred to as the "Statement of Changes in Plan Position." There will also be a slight change in how the opinion statement is presented in the future.

Mr. Berman updated the Committee on the Governmental Accounting Standards Board (GASB), Exposure Drafts #25 and #27, Employment Benefits Project since last Audit Committee meeting. This is the most heavily commented on proposal in the board's history. Comment letters are being analyzed by GASB staff and there have been three deliberations to date. Brown Armstrong is partnering with SACRS to form a lead workgroup for the evaluation of cost allocation and the timing of

valuations. The final standards will be determined by June of 2012, but will not be implemented until 2014 due to the concerns of New York, CalPERS, and Ohio.

Mr. Russin inquired about the review of post retirement medical healthcare benefits. Mr. Berman responded stating that the board's review will be delayed for another year.

Mr. Bendall, Chief Internal Auditor, suggested that the Audit Committee discuss the action items before continuing on to the report presentations. The Committee agreed to Mr. Bendall's suggestion.

IV. ACTION ITEMS

- A. Recommendation as submitted by Sarah Marks, Principal Internal Auditor and Darla Vidger, Internal Auditor, that the Audit Committee approve the revised Statement of Work and instruct Internal Audit to issue a RFP for an Audit Committee Consultant, and bring recommended finalist candidates to the March 2012 Committee Meeting for interview and selection. (Memo dated November 15, 2011)

Mrs. Vidger presented a brief overview of the Request for Proposal (RFP) for an Audit Committee Consultant and the revised Statement of Work for the Audit Committee's review and approval.

Through Committee discussion, it was determined that the public company regulatory matters related to the Securities and Exchange Commission (SEC), Public Company Accounting Oversight Board (PCAOB), and Sarbanes Oxley Act of 2002 (SOX) would not be removed from the Statement Of Work as proposed.

A motion was made by Vice Chair Schneider and seconded by Mr. Barger with all other Committee members voting aye, to approve the revised Statement of Work - with a correction adding back original language specific to public company regulatory matters - and Internal Audits issuance of the RFP for an Audit Committee Consultant and to bring the recommended finalist candidates to the March 2012 Committee Meeting for interview and selection.

- B. Recommendation as submitted by Sarah Marks, Principal Internal Auditor, that the Audit Committee approve the permanent rescheduling of the annual November Audit Committee Meeting to the first Thursday of each December. (Memo dated November 15, 2011)

Mrs. Marks proposed the permanent rescheduling of the annual November Audit Committee Meeting to the first Thursday of each December.

A motion was made by Vice Chair Schneider and moved by Mr. Morris with all other Committee members voting aye, to approve the permanent rescheduling of the annual November Audit Committee Meeting to the first Thursday of each December.

V. REPORTS (continued)

- B. Internal Audit Status Report (As of October 31, 2011)
Richard Bendall, Chief Internal Auditor
Sarah Marks, Principal Internal Auditor
(Memo dated November 18, 2011)

Sarah Marks, Principal Internal Auditor, briefly discussed Internal Audit's staffing updates, explained the current audit resources allocation, and touched upon the following Claims Processing completed projects and work in progress:

1. Foreign Payee Testing
2. New Payee Validation Continued Process Test (CPT)
3. Incident Investigation (PBI)-FY 2012
4. Benefit Conversion Purchases
5. Rehired Retirees
6. Significant Member Payouts
7. Member Status High Risk Identity Verification
8. Process Inventory and Gap Analysis

Mr. Schneider raised a discussion regarding the Invesco Property Management Audit finding pertaining to the use of funds for the purchase of clothing by Riverstone Management. Sarah explained that LACERA is being reimbursed for all related expenses for an eighteen month time span. Mrs. Collins, Senior Internal Auditor, provided the finding detail to the Committee. Mr. O'Brien commented emphasizing the importance of the property manager audits.

Mr. Russin raised the issue of the medical Power of Attorney (POA) document vs. the standard Power of Attorney document used to administer LACERA pension. Mr. Hill, Assistant Executive Officer, stated that Cassandra Smith, Manager of Retiree Health Care, is currently working with the insurance carriers to modify LACERA's current POA document so that it may be used for both pension and medical purposes. In the meantime, the Legal and Communication divisions have created a booklet discussing the importance of a medical POA for LACERA members.

VI. FOR INFORMATION ONLY

- A. Nothing to report.

VII. CONSULTANT COMMENTS

Timothy O'Brien – Audit Committee Consultant
(Oral presentation only)

No comment.

VIII. GOOD OF THE ORDER
(For discussion purposes only)

IX. ADJOURNMENT

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