

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
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BOARD OF PENSION TRUSTEES
AUDIT COMMITTEE
MEETING MINUTES OF APRIL 30, 2008

Audit Committee Members Present

Joel Poorman
Mark Finfrock
Robert Allen
Harold Smith

KPMG

Robert Steen
David Lindquist
Sophia Smith

Others Present

David Craik, Pension Office
Kathy Kunkle, Pension Office
Jeffrey Hoover, Pension Office
Jeffrey Johnson, Pension Office
Debbie Nicholson, Pension Office
Cindy Collins, DAG
Stacey Wynne, State Auditors Office

1. OPENING COMMENTS

The meeting of the Audit Committee of the Board of Pensions Trustees was called to order by Joel Poorman. The Audit Committee introduced Mark Finfrock who joins the Audit Committee, from Pepco Holdings where he is Director of Corporate Risks.

2. APPROVAL OF THE MINUTES

The Audit Committee reviewed the public minutes of the March 18, 2008 meeting.

MOTION made by R. Allen and seconded by J. Poorman to approve the public minutes of the Audit Committee Meeting on March 18, 2008.

MOTION ADOPTED UNANIMOUSLY

The Audit Committee reviewed the executive minutes of the March 18, 2008 meeting.

MOTION made by R. Allen and seconded by J. Poorman to approve the executive minutes of the Audit Committee Meeting on March 18, 2008.

MOTION ADOPTED UNANIMOUSLY

3. PENDING ITEMS (OLD BUSINESS)

The Audit Committee reviewed changes made to Pension Office Investment Flowcharts.

MOTION made by R. Allen and seconded by J. Poorman to approve Pension Office Investment Flowcharts pending any changes from Ashford.

The new performance module from Northern Trust was discussed by Kathy Kunkle and is currently being considered by the Pension Office. This report will provide the Pension Office the ability to independently monitor certain transactions and will not be available for use by outside consultants or third party vendors.

MOTION ADOPTED UNANIMOUSLY

MOTION made by and seconded by R. Allen to move into Executive Session for the purpose of discussing confidential financial information, sensitive commercial information, and proprietary business information.

4. DEPUTY ATTORNEY GENERAL REPORT

Legislation has been introduced to make technical corrections to the DPERS plans to ensure

compliance with recently enacted federal pension legislation and Internal Revenue Code provisions. It is anticipated that the legislation will be passed this session.

5. FISCAL YEAR AUDIT DISCUSSION INCLUDING PROPOSED TIMELINE

The audit team will be Bob Steen, Engagement Partner; Joe Siebert, Concurring Review Partner; Dave Lindquist, Engagement Manager; Sophia Smith, Senior Associate.

The functions of the State Auditors were addressed. The State Auditor procedures include a desktop review and work paper review of KPMG audit work. The State Auditors also focus on one different area of the audit every year on a rotating basis.

The Audit Committee and KPMG had a discussion on the procedures and policies that KPMG utilizes to detect fraud. The Audit Committee stressed their concern on making sure any fraud would be detected by KPMG procedures. KPMG gives reasonable, but not absolute assurance that it did not detect fraud or errors during the audit which might cause a misstatement in the financial statements.

The State Auditors and KPMG explained their discussions on options for the financial statement presentation of the OPEB (Other Post-Employment Employee Benefits) Trust. The options include have the OPEB Trust financial statements stand alone, have the OPEB Trust financial statements as part of the Pension CAFR, or have the OPEB Trust financials statements as part of the State CAFR. KPMG would invoice \$62,000, \$42,000 or \$39,000, respectively. The Audit Committee, State Auditor and KPMG then discussed the benefits of each option. The discussion of recommending of what option the Audit Committee would prefer was tabled to allow further discussion between State Auditors, State Accounting, Pension Office and KPMG.

The Audit Committee and KPMG had a general discussion regarding the potential auditing of the anticipated creation of a DPERS hedge fund. KPMG would recommend that the DPERS fund would have a separate audit. This separate audit should have a date that would match the fiscal year end date of the pension fund ideally, noting this difficulty since most hedge funds have year-end audits as of December 31st.

KPMG wants to focus on any securities that may have been affected by the recent credit market issues. KPMG noted that some of the funds that have a year end date of December 31st have been re-priced after audit report were issued, due to rating agency rating changes of underlying securities held in the portfolios.

KPMG auditors will arrive the week of May 12, 2008, to discuss last year's issues, prepare files and, work papers, and meet with Member Services to review work processes. During the week of May 19, 2008, the KPMG auditors will be auditing contributions and distributions and begin interviews with Member Services staff and complete controls test work, also the auditors will complete controls testwork related to investments. During the week of May 26, 2008, KPMG auditors will complete more auditing of investments. The KPMG auditors will be onsite for all of August for review of the Comprehensive Annual Financial Report and the audit close out meeting is tentatively scheduled for mid September 2008.

6. ADJOURNMENT

The Audit Committee agreed to meet again on September 17th at 10am at the State Pension Office in Dover, DE.

Meeting was adjourned at 12:30PM.

Respectfully submitted,

Jeffrey Hoover
Investment Financial Manager

Joel Poorman, Chair
Audit Committee
Board of Pension Trustees Chairman

cc: Audit Committee Members
David Craik
Kathy Kunkle
Cindy Collins