

DELAWARE STATE EMPLOYEES PENSION FUND
AUDIT COMMITTEE MEETING SEPTEMBER 2, 2004
WILMINGTON DELAWARE

ATTENDEES:

Audit Committee

Joel Poorman
William Markell
Harold Smith

Pension Office

David Craik
Kim Vincent
Alice Simon
Kathy Kunkle

State Auditor's Office

Tom Wagner
Ron Draper
John Bradley
Candance Casto
Lori Stoughton [via phone]

Siegfried Group

Mike Buchheit
Barry Pelagotti

Fund Trustee

Phillip Reese

The purpose of the meeting was to review the fiscal year 2004 Financial Audit and Annual Financial Report

1. FINANCIAL AUDIT REPORT

- Mike Buchheit summarized the audit results:
- An unqualified opinion on the financial statements and no material audit adjustments or material weaknesses in internal controls.
- There were no disagreements between the auditors and the Pension Office on financial accounting or reporting matters and the auditors received good cooperation and communications with the Pension Office.
- Under SAS 61 the Siegfried Group is required to report on fraud communications. It was noted that in their audit Siegfried expanded the scope to include personnel outside the finance area who were involved in the approval process. There were no significant audit adjustments.

- Siegfried identified the valuation procedures used on the investment portfolio as a “critical accounting estimate”. While they believed the Pension Office has established adequate procedures and controls on the determination of the market value of the Fund, they contracted an independent specialist [Harvest Investments] to review the 6/30/04 market values. No material differences were noted.
- Siegfried reviewed several GASB regulations [43, 44 and 45] that will require implementation in future years. It is not expected that any of these will have a material impact on the Fund.

2. MANAGEMENT LETTER

- Access to the People Soft system should be reviewed to confirm that each user has the proper access for their job responsibilities. The Pension Office will undertake a full review of this sensitive area.
- Need to finalize implementation of the STAT system to control program changes. The system was only 50% implemented at the time of the audit. Target date for completion is year-end.
- A disaster recovery site is established and a procedure for keeping it “current” needs to be established.
- Requests for appeal procedures need to be followed and recorded. Board must review/approve all requests at a hearing. However currently if there was resolution of the dispute before the hearing, the Board would not be involved. The disposition of these cases needs to be clarified.
- As part of applicant’s procedures they provide instructions on how to route benefit payments. Pension Office employees with the necessary system authority could redirect these funds. The Pension Office will initiate a report to monitor changes to deposit instructions.
- An application routing slip tracks the process of establishing an individual’s pension. This slip provides information on the controls of the procedure but is not retained. The Pension Office will activate a feature of the People Soft system that will provide this same audit trail.

- Employees should be required to take at least five consecutive days of vacation to improve job rotation skills and possibly uncover potential fraud. Such procedures are followed by many banks. The Pension Office will study this suggestion.

3. ANNUAL FINANCIAL REPORT

The Committee reviewed the draft report and provided suggested changes and corrections. The actuary information was not yet available and is to be forwarded to the Committee when it is received.

Cc: Audit Committee
David Craik/Alice Simon
Phillip Reese