

DELAWARE STATE EMPLOYEES PENSION FUND  
AUDIT COMMITTEE MEETING SEPTEMBER 28, 2004  
WILMINGTON DELAWARE

ATTENDEES:

Audit Committee

Joel Poorman  
Robert Allen  
William Markell  
Harold Smith

Pension Office

Alice Simon  
Kathy Kunkle

Two members of the Audit Committee [Harold Smith and Joel Poorman] attended the Investment Committee meeting held prior [9:00 to 12:00] to the Audit Committee meeting. The Investment Committee meeting agenda included the annual review of the custodian bank and also Ashford Capital. At 1:00 the Audit Committee met to review the updated financial flow charts and responsibilities.

1. Investment Committee Meeting

-Mercantile- Safe Deposit & Trust Company [Bank] reviewed their performance over the past 12 months---assets under administration grew from \$40.2 Billion to \$46.2 Billion. The Sarbanes-Oxley Act has caused the Bank to formalize management oversight and implement a new committee structure assigning specific areas of responsibility. The Bank has spent \$1.6 Million on this review and re-structuring. They feel this effort has greatly strengthened the Bank's procedures and policies. In addition the Bank is in the process of sub-contracting back office operations to SunGard. This will provide enhanced services to clients---e.g. [1] Online, real-time access to information rather than the current daily batch posting system, [2] browser-based, client-centric webs with easier access, and [3] easy download of account data. The shift to SunGard, which will occur on October 31, 2004, will not impact the continuity of the Bank personnel interfacing with the Fund.

-The transfer of custodial accounts from State Street Bank to Bank of New York is in process. On September 15, \$600 Million was moved and has now been reconciled. An additional \$800 Million will be moved on October 1. Hard copies of reports and online access will be available to Ashford Capital and the Pension Office from the Bank of New York.

-The Investment Committee reviewed the performance of Ashford Capital covering Fund performance, new ideas, communications, quality of the personnel, management succession, follow-up, etc. Several suggestions were made to further strengthen this important relationship.

## 2. Review of Investment Flow Charts and Responsibilities

-A full review of the flow charts and responsibilities resulted in several modifications that will be made by the Pension Office.

## 3. Other Matters

-Siegfried Group's contract has expired and it is necessary to promptly contract an auditing firm for fiscal year 2005. After discussion it was the recommendation of the Committee that a Request for Proposal (RFP) be issued to the "Big Four" accounting firms for a one-year contract. Limiting the contract to one year will enable the State to negotiate a single contract for all State activities for fiscal year 2006 and beyond. Currently there are several different auditing firms contracted for the various State functions---- e.g. Besides the Fund there are separate contracts for the Lottery, Department of Transportation, Delaware Port Authority, several charter schools, etc. Most of these contracts terminate with the 2005 audit.

-It is still the Committee's position that the Fund should have its own separate contract with a "Big Four" firm. The knowledge of pension accounting, pending legislation, capability to meet the Fund's schedule vice the State's are all-important for the Fund's audit. As only a small part of a single overall State audit contract, the Fund could lose an important element of the audit relationship----knowledge of what is happening in the "industry" accounting-wise.

-Poorman is to discuss the Committee's recommendation with both Phillip Reese and Tom Wagner to get their input before the Board's meeting on October 1.

Cc: Audit Committee  
David Craik/Alice Simon  
Phillip Reese