

DELAWARE STATE EMPLOYEES PENSION FUND
AUDIT COMMITTEE MINUTES NOVEMBER 16, 2004
WILMINGTON, DELAWARE

ATTENDEES

Audit Committee

Robert Allen

William Markell

Joel Poorman

Harold Smith

Pension Office

Alice Simon

Kathy Kunkle

The purpose of the meeting was to respond to the Board of Trustees request on what “authorities” had been delegated to the Audit Committee. In addition the Investment Committee was having a meeting with two critical and topical Investment Managers.

INVESTMENT COMMITTEE MEETING [9:00 TO 12:30]

Bill Markell and Joel Poorman were the only Audit Committee members present at the Investment Committee meeting.

Ashford Capital reviewed the performance of the Fund with the Committee [Rob Gooderham and Linda Drew] for both October and the third quarter. In addition the asset allocation was reviewed. As a result of these discussions recommendations are to be made to the Board. The Investment Committee also discussed the “authorities” it had been delegated by the Board and the desire to expand and clarify them.

T. Rowe Price [Charles Ober and Bob Birch] reviewed for the Investment Committee their outlook for the economy and specifically for natural resources/commodities. Their presentation was well-documented with an abundance of graphs and statistics tracking historical trends and performance of the various natural resources [oil, coal, natural gas, steel, etc]. They then reviewed the performance of their portion of the Delaware Fund and the outlook for the near term

Mount Lucas Management [Ray Ix and Tim Rudderow] reviewed their performance in the commodity futures portion of the Delaware Fund. They then discussed two alternative revisions they were considering for their index---basically these revisions involved changing some of the underlying commodities in the index and revising when the monthly trading would be done. Historical comparisons of the results of the two new alternatives with the current index were reviewed and the advantages discussed.

They indicated a decision on the procedure was to be made within the near term so the transition could start January 2005.

AUDIT COMMITTEE MEETING [1:00 TO 2:30]

The full Committee was present for the meeting.

Alice Simon distributed drafts of the State Auditor's Request For Proposal [RFP] for the selection of the public accounting firm for fiscal year 2005 and thereafter. The RFP is for a three-year contract with an option for two additional two-year periods. The RFP will be sent to the "big four" accounting firms; however we are advised the State Auditor's Office has not yet determined to include Siegfried as we have recommended. The goal is to have a contract signed by late January 2005. Members of the Audit Committee are to review the RFP and give comments to Alice Simon by November 19. She will then coordinate the comments and meet with the State Auditor's Office on November 22.

Alice Simon distributed a December 14, 1982 letter outlining the "duties, functions and responsibilities of the Committee on Audit". This letter was the genesis of the Audit Committee. The basic responsibilities were:

- Recommend to the Board the public accounting firm
- Coordinate the public accountants and the State Auditors audit of the Fund; review the findings; follow up recommendations are implemented as appropriate.
- Review audit plans, internal controls, financial reports and other related matters.
- Meet with the Pension Office to deal with any concerns on controls, accountability or other related matters as appropriate.
- Report to the Board on matters that warrant action or attention of the Board.

Harold Smith and Bob Allen both presented pro forma descriptions of audit committee responsibilities from two public accounting firms' publications. After discussion of the original "charter" and the current view of audit committee responsibilities, it was agreed Alice Simon would develop a list of the responsibilities the Committee had agreed upon and put them into a format similar to that being used by the Investment

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Committee for presentation to the Board. She is to email a draft to the Committee for final comment with the intention of submitting the list to the Board at its December meeting.

Alice Simon advised that installation of the SunGuard system by Mercantile has been delayed. It was agreed that the regular year-end meeting with Mercantile be deferred until mid to late January so that we could cover the results/impact of the SunGuard system.

Cc: Audit Committee Members

Phillip Reese

David Craik

Alice Simon