

LACERA
RFP – Annual Audits of the Financial Statements
Bidders' Questions and LACERA's Responses
July 2009

Audit Fieldwork

1. Does LACERA provide all necessary supporting schedules and analysis for the following:
- Cash
 - Receivables
 - Investments
 - Payables
 - Accrued Expenses
 - Contributions
 - Investment Income and Expenses
 - Retiree Payroll
 - Administrative Expenses
 - Refunds
 - Management's Discussion and Analysis
 - Footnote Disclosures

Yes, LACERA provides all necessary supporting schedules for the accounts in question.

2. Does LACERA provide an electronic worksheet grouping all trial balance accounts to the financial statement balances?

Yes.

3. a) Do you have written documentation of controls over the following: cash, receivables, investments, payables, accrued expenses, contributions, retiree payroll, administrative expenses (salaries and benefits, operating, professional services etc.) and the financial statement close and reporting process? b) Would you be able to provide a brief description of the key control(s) for each of these areas?

a) LACERA operates under general policies of the governing Boards, and has documented "desk procedures" which incorporate controls for the items in question.

b) LACERA will provide copies of the desk procedures to the Auditor who is selected as a result of this RFP process.

4. a) Did the previous Auditor adopt a strategy of testing and relying on internal controls?
b) Have there been any instances in the past of the auditor not being able to attain control reliance, due to the identification of design or operating effectiveness deficiencies in general computer controls, and computer or application controls?
(Reference: RFP Section IV.A.7, Pages 24-26)

a) Yes.

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b) *No.*

5. a) Will custodians confirm all the balances in the investment portfolio at the end of the year?
b) Are ALL private equity and real estate funds audited by external auditors? c) Were all audit opinions unqualified? d) Is the real estate portfolio stated at cost or market value?

a) *Yes.*

b) *Yes.*

c) *Yes.*

d) *Market value.*

6. What is the source of pricing for the valuation of securities with quoted market values?
(Reference: RFP Section I.F.5, Page 9)

LACERA's custodian, Bank of New York Mellon Trust.

7. Are SAS 70 reports available from the investment custodians?
(Reference: RFP Section I.F.5, Page 9)

Yes.

8. What approximate percentage of net assets (as of June 30, 2009) represent investments that do not have quoted market values?
(Reference: RFP Section I.F.5, Page 9)

Approximately 22% of net assets do not have quoted market values.

9. How often are the values of private equity and real estate investments adjusted in the financial statements?
(Reference: RFP Section I.F.5, Page 9)

a) *Real Estate Commingled Funds – Quarterly.*

b) *Private Equity – Quarterly.*

c) *Title Holding Corporations – Annually.*

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10. What is the latest valuation date for private equity and real estate investments to be included in the financial statements as of June 30?

(Reference: RFP Section I.F.5, Page 9)

March 31st is the latest valuation date for private equity and real estate.

11. Are there any audit areas that you specifically rely on the auditor to assist with?

No.

12. Has Management completed a formal written assessment of its risks of erroneous or fraudulent financial reporting?

(Reference: RFP Section IV.A.7, Pages 24-26)

No. LACERA management participates in the organization-wide risk assessment conducted by Internal Audit. Internal Audit believes these risks are addressed in this process.

13. Do you have written documentation of risk assessment procedures over the following: a) organizational controls such as, control environment, risk assessment process, internal control communication process, monitoring process, b) structure and governance, c) programs, regulatory and other external factors, d) nature of the entity, e) objectives and strategies and related business risks, f) measurement and review of the entity's financial performance?

a) – e) LACERA maintains an organization-wide risk assessment process that incorporates the items in question. The risk assessment database contains risks, objectives, processes and controls, which is administered by Internal Audit and updated annually in cooperation with LACERA management. There are various reports available from the risk assessment database. For the Auditor who is selected as a result of this RFP process, Internal Audit will provide a copy of the current risk assessment process and the latest risk assessment report(s).

f) LACERA's Investment Office is charged with the responsibility to monitor and control all investment vehicles and ensure compliance with directives from the Board of Investments. Extensive policies and procedures govern the Investment Office's functions.

14. Is there any known fraud or illegal acts that have taken place? Is so, please provide a description.

There are no known frauds or illegal acts to report. Over the last several years, there have been some minor "incidents" reported by LACERA employees such as petty theft

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by unknown parties or loss of computer equipment. Internal Audit has conducted appropriate "incident investigations" and when necessary, included other Divisions in the investigation process such as Human Resources, Legal and Executive.

15. Is there any known non-compliance in regards to laws, regulations and contracts? If so, please provide a description.

There are no known issues to report.

16. What is your ideal approximate start date to begin the audit fieldwork?

The interim fieldwork begins the second week of June and the final fieldwork begins the last week of August or the first week of September.

17. Approximately how long were the auditors in the field for final fieldwork?

Auditors are at LACERA's offices for 2 weeks to conduct interim fieldwork and 5 weeks to conduct final fieldwork.

18. What was the extent of substantive audit work completed as of an interim date and the accounts/financial statement line items where interim work was employed?

(Reference: RFP Section IV.A.7, Pages 24-26)

LACERA's current Auditor has conducted the "participant data testing" and some balance sheet and financial statement analytics during interim fieldwork. In addition, the confirmation letters and process are reviewed with LACERA staff and completed shortly thereafter. The confirmations are typically sent out on July 1.

19. When will the final trial balance, confirmation letters and all pertinent audit schedules be ready to be transmitted to the Auditor in electronic format?

LACERA staff work with the Auditor to finalize the confirmation letters in June during interim fieldwork. LACERA usually sends the confirmation letters electronically to external investment managers on or about July 1. The trial balance and all pertinent audit schedules will be transmitted to the Auditor electronically at the beginning of final fieldwork, which is typically begins the last week of August or first week of September.

20. When will drafts of the management's discussion and analysis, financial statements, footnotes and supplemental schedules be available?

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LACERA typically provides Auditor with a draft of the CAFR during week 4 of final fieldwork. For FYE 2009, LACERA will provide this information to the Auditor during the week of September 21st. The Independent Auditor's Report, draft copy is due to LACERA on October 5th and the Independent Auditor's Report, final copy is due October 15th. These deadlines are firm and if not met, represent a material breach of the Audit Services Agreement between LACERA and Auditor.

It is also important to note that the other reports prepared by the Auditor (i.e., Report on Internal Control and Compliance, Required Communication to the Audit Committee Report, Report to Management) are due to LACERA December 10th according to the RFP and Audit Services Agreement. However, the current Auditor has typically provided these reports in mid to late October. This early delivery date allows LACERA and Auditor to present all final audit reports to the Audit Committee at its scheduled meeting in late November or early December. This process requires the Auditor to attend only one Audit Committee meeting. Delivery of the three remaining reports by the Auditor in December (in accordance with the due date stated in the Agreement) would require the Auditor to attend two Audit Committee meetings, one in December for the transmittal of the Independent Auditor's Report and one in March for the transmittal of the remaining three reports.

21. How many exit conferences are anticipated pursuant to the RFP where the auditor is expected to participate in person?
(Reference: RFP Section II.D.3, Page 14)

Auditor will typically attend two, but as many as four exit conferences may be required. The Auditor shall hold at least two exit conferences, one with LACERA staff and one with the Audit Committee at a formal Audit Committee meeting in November or December.

If Auditor is not able to complete all audit reports by mid to late October, Auditor will be required to attend a second exit conference with the Audit Committee in March (see response to Question #20 above for additional information). In addition, if necessary and requested by the Board of Retirement, the Auditor must hold an exit conference with the Board of Retirement at a regularly scheduled Board meeting.

As indicated in the RFP, Auditor is required to hold weekly status meetings during interim and final fieldwork with LACERA management and staff. These meetings are held at LACERA's offices.

Prior Year Audit

22. a) Was there a dispute with the predecessor Auditors? b) Why is LACERA changing Auditors?
a) No.

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b) *It is LACERA's policy to perform an open and competitive RFP process at the conclusion of each contract period. The current Auditor is eligible to participate in this RFP process.*

23. a) Is there anything about the current Auditors that disappointed you? b) Has LACERA been in dispute with the audit firm over any professional, technical, or fee related issues?

a) *No.*

b) *No.*

24. What was the breakdown of your audit fee for last year?

The Auditor charged a fee of \$120,520 which is a "not to exceed fee" that included travel and other expenses.

25. What is the level of effort (number of hours) the auditor charged for last year's audit?

The Auditor charged 1,400 "billable hours" which were included in the "not to exceed fee" as stipulated by the Audit Services Agreement. Any additional hours incurred by Auditor are not paid for by LACERA per the Audit Services Agreement.

26. a) Please disclose the hours and cost of the 2008 audit. b) Were there any overrun billings for unplanned audit work?

(Reference: RFP Section IV.A.11, Page 27)

a) *Please see above responses to Questions #24 and #25.*

b) *There were no overrun billings and the annual fee is capped as a "not to exceed fee" per the Audit Services Agreement.*

27. Were there any areas that caused delays during last year's audit?

There were no delays last year. Any delays that are not caused by LACERA represent a material breach of the Audit Services Agreement.

28. Were there any issues or difficulties encountered during last year's audit? Please describe.

There were no issues or difficulties encountered last year.

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29. Were there any changes to the chart of accounts from the prior year?

No.

30. a) How many audit adjusting journal entries were there last year? b) May we have a copy of those adjusting journal entries?

a) *There was one adjusting journal entry last year and one reclassifying entry.*

b) *LACERA will provide a copy of the adjusting journal entry to the Auditor who is selected as a result of this RFP process. For a description, please see Question #32 below.*

31. Were there entries that were identified by LACERA and provided to the Auditor after fieldwork began?

Yes. Entries are generally related to the late receipt of audited financial statements for the Title Holding Companies (wholly-owned real estate investments). Original estimated balances are corrected with final audited balances.

32. a) Were there audit adjustments (recorded or unrecorded) detected by the auditors during the audit of the financial statements for the year ended June 30, 2008? b) What was the nature of adjustments detected by the auditors, if any?

(Reference: RFP Section A. Minimum Audit Requirements and Reporting Guidelines for Public Retirement Systems)

a) Yes.

b) *The sum of confirmed values for the Private Equity partnerships were materially different from the values previously recorded, so an adjustment was required.*

33. a) What was in the prior audit Management Letter? b) How has LACERA implemented Auditor's recommendations?

a) *The prior year Management Letter contains one finding regarding two members' incorrect contribution rates. The Management Letter also includes the disposition of the prior year finding. This prior year finding was related to an incorrect monthly retirement allowance that was discovered by LACERA staff of one Division but not corrected timely and not communicated to another Division.*

Both findings were considered not material to LACERA's pension fund operations. A copy of this report will be provided to the Auditor who is selected as a result of this RFP process.

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b) *LACERA has corrected the members' contribution rates, the member's allowance and notified the members accordingly.*

34. Was there a management letter issued in connection with the audit of the financial statements for the year ended June 30, 2008?

(Reference: RFP Section A. Minimum Audit Requirements and Reporting Guidelines for Public Retirement Systems)

a) *Yes, details of the report are explained above in Question #33. A copy of this report will be provided to the Auditor who is selected as a result of this RFP process.*

35. Has the Auditor used LACERA's staff for fieldwork during prior audits? If applicable, please describe the audit areas completed by LACERA's staff.

(Reference: Audit Services Agreement, Page 5)

The last time Auditor utilized LACERA Internal Audit staff for fieldwork during prior audits was in 2001. LACERA staff completed work in sections such as:

- i. Property, Plant & Equipment*
- ii. Trade Accounts Payable*
- iii. Accrued Expenses*
- iv. Confirmation Management*
- v. Monitoring Controls*
- vi. Contributions Receivable*
- vii. Real Estate Investments*
- viii. Disclosure Checklists*

This situation occurs when a LACERA staff member has requested Form E experience with Auditor and Auditor agrees to provide that experience. This Form E experience is related to a requirement for an individual to apply for a Certified Public Accountant license in California. There are currently no Internal Auditors requesting Form E experience.

LACERA Staff

36. Please provide management titles and tenure in the positions for individuals who act as chief executive officer and chief financial officer who will sign the representation letter in connection with the financial statement audit.

The current Chief Executive Officer of LACERA (title: Chief Executive Officer) was appointed to his position in October 2006. Prior to that position, he was an Assistant Executive Officer at LACERA for approximately 12 years. The current Chief Financial Officer of LACERA (title: Division Manager, Financial and Accounting Services Division) has been in her position for over 10 years, and has been in the accounting and auditing field for approximately 20 years.

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37. a) How many degreed accountants are in the Accounting and Finance Departments?
 b) Can you provide a brief description of the experience and background of the personnel in the Accounting and Finance Departments of the organization, including the experience with LACERA?

- a) *All 21 Accountant level and higher staff, plus one Accounting Technician, have degrees. Two Accounting Technicians have at least 12 units in accounting.*
- b) *The accountants in the Investment Accounting Section have experience ranging from 3 to 30+ years in accounting related fields, and have been with LACERA from 1 to 30+ years.*

The accountants in the General Accounting Section have experience in the accounting field ranging from 5 to 40 years, and have been with LACERA from approximately 1 year to 26 years.

38. Please provide the titles of accounting staff, professional certifications, and tenure in the positions.

Title (Total of 26 Positions)	Number of Positions	Professional Certifications	Tenure in Position
<i>Division Manager</i>	<i>1</i>	<i>CPA, CGFM</i>	<i>10 years; 20 years experience</i>
<i>Assistant Division Manager</i>	<i>1</i>	<i>CPA</i>	<i>10 years; 20 years experience</i>
General Accounting Section			
<i>Accounting Officer I</i>	<i>1</i>		<i>7 years; 30+ years experience</i>
<i>Senior Accountant</i>	<i>3</i>		<i>Average of 5 years</i>
<i>Accountant</i>	<i>5</i>		<i>Average of 4 years</i>
<i>Accounting Technician I</i>	<i>3</i>		<i>2 have 2 years; 1 has 15 years</i>
Investment Accounting Section			
<i>Accounting Officer II</i>	<i>1</i>		<i>10 years; 40 years of experience</i>
<i>Senior Accountant</i>	<i>2</i>		<i>Average of 13 years</i>
<i>Accountant</i>	<i>9</i>		<i>Average of 4 years</i>

Request For Proposal

39. What is the reason for sending the Request For Proposal and changing Auditors?

Please see response to Question #22 b) above.

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40. How long has the previous audit firm been the Auditor for LACERA?

LACERA's current auditor has been under contract for 7 years including the FYE 2009 audit currently in progress.

41. If general insurance requirements (general, auto, workers' compensation, errors and omissions) are not met, will they preclude an audit firm from the evaluation process?
(Reference: Audit Services Agreement, Page 14)

The general insurance requirements must be met at the time the Auditor and LACERA execute the Audit Services Agreement. If the Auditor does not meet the insurance requirements at the time of submitting a proposal, the Auditor must clearly indicate its intent and ability to meet those requirements should LACERA select the Auditor for hire. Auditor will be required to meet (and provide proof thereof) the insurance requirements prior to executing the Audit Services Agreement. If Auditor objects to any terms and conditions stipulated in the Audit Services Agreement attached to the RFP, Auditor must indicate such in their proposal along with proposed language which would modify the sample agreement.

42. When will the "finalist" interviews be held as part of the RFP process?

All Auditors who are placed on the "finalist" list will be notified by September 16, 2009. The finalist interviews with the Board of Retirement are tentatively scheduled for October 15, 2009, at LACERA's offices in Pasadena, California. All Auditors placed on the finalist list will be required to send at least one person representing Auditor to participate in the interviews on October 15, 2009, or will be disqualified from further participation in the RFP process.

43. What word processing/typing services for the financial statements, notes, and all required supplementary schedules, if any, are required under the statement of work?
(Reference: RFP Section II.E, Page 14)

The Auditor is required to prepare draft and final reports (i.e., Independent Auditor's Report including financial statements, related schedules and footnotes; Report on Internal Control and Compliance; Required Communication to the Audit Committee Report; and Report to Management), and provide the appropriate number of copies as indicated in the Audit Services Agreement.

44. Are there any expected conversions or implementation of new software within the next five years?

No.

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45. What type of media should the PDF copy of the proposal be provided?
(Reference: RFP Section III.G, Page 18)

The PDF copy of the proposal should be provided on a CD with the hard copy proposals and can be sent via email.

End of Document.