

MINUTES
OF THE
BOARD OF FIRE AND POLICE PENSION COMMISSIONERS
AUDIT COMMITTEE MEETING OF MARCH 1, 2012

The Audit Committee and members of the Board of Fire and Police Pension Commissioners of the City of Los Angeles met in Room 800, 360 East Second Street, on Thursday, March 1, 2012.

COMMITTEE

MEMBERS PRESENT: Ruben Navarro, Chair
Wayne Moore

COMMISSIONER ABSENT: Brenda Maull
Raúl Pérez

OTHER COMMISSIONERS

PRESENT: Robert von Voigt, President

AUDIT COMMITTEE

SUPPORT STAFF: Erin Kenny, Internal Auditor IV

DEPARTMENT OF FIRE AND

POLICE PENSIONS:

Michael A. Perez, General Manager
William Raggio, Assistant General Manager
Joseph Salazar, Assistant General Manager
Tom Lopez, Chief Investment Officer
Barbara Nobregas, Commission Executive Assistant

CITY ATTORNEY'S OFFICE: Alan Manning, Assistant City Attorney

Chair Navarro called the meeting to order at 8:07 a.m. All of the above Commissioners were present at the start of the meeting. President von Voigt appointed himself to the Committee.

1. 2012-13 PROPOSED THREE-YEAR STRATEGIC PLAN AND POSSIBLE COMMITTEE ACTION

Mr. William Raggio, Assistant General Manager, Administrative Operations Division presented an overview of the Strategic Plan Projects: member system conversion lifecycle, document imaging system, and business continuity planning. Commissioner Moore was concerned that with Project 9 staff would be assuming the responsibility to oversee the Board's governance. General Manager Perez stated the issue was placed on the Strategic Plan at the request of an individual Board member and that the language may be modified. Chair Navarro offered that the recommendation may be approved without Project 9: Governance Best Practices and to bring the issue as a separate item

before the full Board.

MOTION

Commissioner Moore moved that the Audit Committee recommend to the Board the approval of the 2012-13 Proposed Three-Year Strategic Plan, excluding Project 9: Governance Best Practices, seconded by President von Voigt and approved by the following vote: ayes, Commissioners Moore, President von Voigt, and Chair Navarro – 3; nays, none.

2. FISCAL YEAR 2012-13 PROPOSED BUDGET AND POSSIBLE COMMITTEE ACTION

Ms. Myo Thedar, Senior Management Analyst II and Ms. Jenny Mach, Personnel Analyst II, Administrative Services presented the proposed budget. Commissioner Navarro stated his concern regarding the true funding assumed on the two percent opt-in and that the Board is not accounting for the dollar value of the City's contribution without the opt-in. General Manager Perez stated he will place a notation on the Budget before it goes to the full Board.

Commissioner Navarro was concerned when looking at budget increases for investment managers, specifically for commodities. He asked if the commodities investment would offset the fees. Mr. Tom Lopez, Chief Investment Officer (CIO) stated he was not able to guarantee the fees for commodities would be offset by the investments. He further explained that the reason for getting into commodities is to diversify the holdings away from the stock market and explained the strategy. Commissioner Hansell inquired about the increase in Chicago Equity Partners fee. Mr. Lopez stated that Chicago Equity Partners has a performance fee and did well compared to the stock market and earned a larger fee because of it. Mr. Lopez said he would review the fee schedule and see if there may be a possibility to lower the fee.

MOTION

Chair Navarro moved that the Audit Committee recommend to the Board approval of the Fiscal Year 2012-13 Proposed Budget as amended with a notation regarding the two percent opt-in, seconded by President von Voigt and approved by the following vote: ayes, Commissioners Moore, President von Voigt, and Chair Navarro – 3; nays, none.

3. COMMITTEE REVIEW OF STATUS UPDATE TO 2011 ANNUAL AUDIT PLAN AND FORECAST AND PROPOSED 2012 ANNUAL AUDIT PLAN AND FORECAST; AND POSSIBLE COMMITTEE ACTION

Ms. Erin Kenney, Departmental Audit Manager, Mr. James Yeung, Internal Auditor III, Ms. Caroline Dinu, Senior Management Analyst II were before the Committee. Ms. Kenney provided an overview on the 2011 Annual Audit Plan and Forecast specifically on Projects No. 3-6, 7, and 8. Ms. Kenney stated that the Audit of Investment Selection, Monitoring, Reporting, etc.,

Project 9 will likely begin after the audit of the Los Angeles Police Relief Association.

MOTION

Chair Moore moved that the Audit Committee:

1. Review the status update to the 2011 Annual Audit Plan and Forecast (AAPF),
2. Review the proposed 2012 AAPF and recommend it to the full Board for approval, seconded by President von Voigt and approved by the following vote: ayes, Commissioners Moore, President von Voigt, and Chair Navarro – 3; nays, none.

4. INFORMATION TECHNOLOGY SYSTEMS ACCESS AUDIT AND POSSIBLE COMMITTEE ACTION

Ms. Erin Kenney, Mr. James Yeung, and Ms. Caroline Dinu, were before the Committee. Ms. Kenney provided a brief introduction of the Audit indicating that it was considered a high priority based on last year's risk assessment. The overall objective of the audit was to evaluate whether user access to the network applications and data was adequately controlled and especially for granting, maintaining and removing access. Mr. Yeung stated the overall user access was adequately and effectively controlled. He discussed the exceptions, which management has taken the necessary corrective actions. Mr. Yeung said approving the policies will provide a good opportunity for management to make sure the role of the Systems Section is clearly defined and that its objectives are aligned with LAFPP's mission. Ms. Kenney stated Internal Audit has met with management regarding the findings and they have expressed general agreement with the conclusions and recommendations. Management's response is at the end of the report.

General Manager Perez provided an opportunity for Systems Section to explain a breach of security that occurred outside LAFPP and the actions that were taken. He introduced Mr. Bob Yan, Senior Systems Analyst II of the Systems Section. Mr. Yan provided details of the incident that occurred on February 20, 2012, in which a large number of emails in Chinese were sent to a LAFPP account. The account was flooded with spam email and was automatically disabled by the email system. The Systems staff conducted an assessment of the IT system. Staff determined that no member data was compromised. Systems conducted a forensic analysis with the security vendor. The cause of the breached account was determined. Measures have been taken by the Systems Section to prevent any future risk exposures.

5. UPDATE TO THE SUBSIDY PROGRAM AUDIT - LOS ANGELES FIREMEN'S RELIEF ASSOCIATION

Ms. Erin Kenney and Mr. James Yeung were before the Committee. Ms. Kenney provided a summary of the subsidy audits. She indicated that the first audit of the associations is with

Los Angeles Firemen's Relief Association (LAFRA) and is completed. She presented a draft report to LAFRA and has met with them. During the exit conference, she explained the preliminary conclusions, obtained additional information from them to support her determinations and she is currently editing the report to consider their comments. She is also meeting with LAFPP staff to present the preliminary conclusions, obtain additional information to support any determinations and revise the audit if appropriate. Ms. Kenney will then meet with the General Manager to share the conclusions with him and elicit his comments. She will give LAFRA and staff a week to formally respond to the audit. She is seeking a general agreement between LAFRA and LAFPP management. She will ask the CEA to poll the Committee for their availability to schedule a meeting in early or mid April to present this audit. Chair Navarro directed staff to bypass the Audit Committee and go straight to the full Board. General Manager Perez stated this is a good idea.

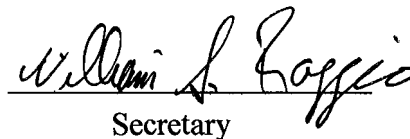
6. PUBLIC COMMENTS

There were no public comments.

The meeting adjourned at 8:47 a.m.



Chair



Secretary