

**AUDIT COMMITTEE OF THE CITY OF NEW YORK
MINUTES OF THE AUDIT COMMITTEE MEETING**

HELD ON

WEDNESDAY, APRIL 30, 2014 IN THE COMPTROLLER'S OFFICE BOARD ROOM

ATTENDANCE

Chair	Bernard Rosen
Private Members	Bud Larson Michael Spitzer Mark Kaplan
Public Members	Representing the Mayor – Nicole Fleming Representing the Comptroller – Michele Mark Levine Representing the Public Advocate – Larry Schimmel
Secretary	Jacqueline Warburton-Thompson
Independent Auditors	Deloitte & Touche LLP – James Curry, Mike Malloy
Others	New York City Employees Retirement System - Michael Goldson, John Hartman, Mario Disanto NYC Teachers' Retirement System - Mitchell Fruchter, Michael Henschel NYC Police Pension Fund - Abraham Papilsky, Sunny Bauakutty NYC Fire Pension Fund - Angel Garcia, Maureen Dale, Agnes Chan NYC Board of Education Retirement System - Rick Hederman, Jean Daniel Desmornes New York City Office of Management & Budget – Enid Ellis Office of the Actuary – John Gibney New York City Mayor's Office of Operations - George Davis Public Advocate's Office – Jared Hova

New York City Comptroller's Office - Marjorie Landa, Edward Carey, Alma Fana, Faige Hornung, David Jeter, Maria Tavares, Katrina Stauffer, Thema Holder, Susan Cornwall, Berta Lara, Rosa Charles, Edward Carey, Patricia Kearns, Nancy Brunner, Veronika Musheyeva

Audit Committee Meeting- April 30 2014

I. Call to Order

Mr. Bernard Rosen, the Chairman, called the meeting to order at 9:30 a.m.

The Committee went into executive session. The Committee resumed the public session at 10:15 a.m.

II. Public Libraries

Mr. Jared Hova, Deputy Council for Legislation and Policy at the Office of the Public Advocate, requested that a past motion made by the Public Advocate, to have the public libraries present before the Committee, be tabled until ongoing investigations and audits of the public libraries by the Department of Investigation and the Comptroller's Office are completed. The motion to table was approved unanimously.

III. Review and Approval of the Draft Minutes of the Audit Committee Held March 26, 2014

Chairman Rosen inquired if there were any comments on the draft minutes as previously circulated to the members. Subject to minor editorial corrections submitted to Ms. Jacqueline Thompson, Committee Secretary, the Committee approved the draft minutes of the March 26, 2014 meeting.

IV. Review of the Bureau of Audit Annual Report

The next agenda item was the review of the *Report to the Mayor and City Council on City Comptroller Audit Operations* (“*Report*”), for the fiscal year ended June 30, 2013. Ms. Marjorie Landa, Deputy Comptroller for Audit introduced herself and the other members of the Audit Bureau present.

Ms. Landa provided a summary of the Audit Bureau’s accomplishments in fiscal year 2013, including the number of reports and special reports issued, the amount of actual and potential revenue and savings found, and the number or recommendations made and how many agencies reported to have been implemented

Ms. Landa reported that going forward the Audit Bureau will be looking deeper into contract administration and contract review, as well as other internal controls She noted that a lot of money flows through non-profit agencies; therefore they need to have a robust internal audit program and proper internal controls.

A question and answer session followed. Several matters were discussed, including:

- The Audit Bureau will indicate to the Audit Committee issues that they feel need additional attention.
- The Audit Bureau will be performing increased follow-up reviews on past recommendations.
- Audit reports that are published on the Comptroller's website are now searchable by agency.

- The Committee advised that the annual Audit Bureau reports should contain information on the status of potential savings

V. Review of the Financial Statements and Management Letters (where applicable) for The New York City Retirement Systems

The next agenda item was the review of the financial statements and management letters of the New York City Pension Plans (the “Plans”) and the Variable Supplement Funds (the “VSF”) for the fiscal year ended June 30, 2013 as follows:

- New York City Employees’ Retirement System (“NYCERS”)
- New York City Board of Education Retirement System- Qualified Pension Plan (“BERS”)
- Teachers’ Retirement System of The City of New York- Qualified Pension Plan (“TRS”)
- New York City Police Pension Fund (“POLICE”)
- New York City Fire Pension Fund (“FIRE”)
- New York City Fire Department Fire Officers’ Variable Supplement Fund (“FOVSF”)
- New York City Fire Department Firefighters’ Variable Supplements Fund (“FFVSF”)
- New York City Housing Police Officers’ Variable Supplements Fund (“HPOVSF”)
- New York City Housing Police Superior Officers’ Variable Supplements Fund (“HPSOVSF”)
- New York City Transit Police Officers’ Variable Supplements Fund (“TPOVSF”)
- New York City Transit Police Superior Officers’ Variable Supplements Fund (“TPSOVSF”)

- New York City Police Department Police Officers' Variable Supplements Fund -- ("POVSF")
- New York City Police Department Police Superior Officers' Variable Supplements Fund ("PSOVSF")
- New York City Correction Officers' Variable Supplements Fund ("COVSF")

The representatives from the Plans and VSF's introduced themselves, including Mr. John Hartman, Deputy Director of Finance at NYCERS; Mr. Rick Hederman, Director of Fiscal Operations at BERS; Mr. Abe Papilsky, Chief Accountant at POLICE; Mr. Angel Garcia, Assistant Deputy Director at FIRE and Mr. Mitchell Fruchter, Banking and Financial Reporting Manager at TRS and noted that Mr. James Curry, Partner at D&T, was the Plans' and VSFs' independent auditor.

Mr. David Jeter, Assistant Comptroller for Asset Management at the Comptroller's Office, reported that the pension funds had an overall return of 12 percent in fiscal year 2013. The U.S. equity market had returns of about 22 percent. For fiscal year 2014, the funds are running at about the same pace. In fiscal year 2012, the funds went through an asset allocation shift that was designed to reduce the volatility of the funds and reduce the exposure to the U.S. equity markets. The funds were shifted from 70 percent equity and 30 percent fixed income to 65 percent equity and 35 percent fixed income. Within equity \$15 billion was shifted from public market securities to the private equity hedge fund and real estate sectors. Another switch that was made was going from a series of smaller alternative investments to much larger private equity deals.

Chairman Rosen directed the Committee to NYCERS financial statements and management letter.

1. NYCERS

Mr. Hartman reported on NYCERS' results of operations. Investments had a \$3.7 billion increase in appreciation in fiscal year 2013. Of the appreciation, 78 percent was from domestic equity and 13 percent was from international equity. The fixed income investments did not perform as well as the equity investments. Between the member and employer contributions and the interest and dividend income, NYCERS was able to pay all of the pension benefits for fiscal year 2013.

A question and answer session followed. Several matters were discussed, including:

- The economic impact of changes in the actuarial interest rate is not known at this time because the actuarial calculations are on a two-year lag. The decrease from an 8 percent interest rate to 7 percent was part of a package of assumptions that the actuary had recommended. The package included a change in the actuarial cost method and a change in the amortization of unfunded liabilities.
- In 2011, 2012 and 2013 employer contributions were \$2.387 million, \$3,017 million and \$3.046 million respectively. .

There being no further questions the Chairman Rosen directed the Committee to TRS financial statements and management letter.

2. TRS

Mr. Fruchter explained that TRS total investments include both fixed and internally managed diversified equity and international investments. A question and answer session followed. Several matters were discussed, including:

- The Committee recommended that TRS be more specific regarding its benchmarks in its reports. The investment section of TRS's Comprehensive Annual Financial Report ("CAFR") should explain exactly what benchmarks are used.
- The Committee made several recommendations with regard to the reporting of tax deferred annuities ("TDA") in TRS's financial statements, including that an explanation of the relationship between TRS and the TDAs and a clearer distinction between their assets. The Committee recommended that certain investment income amounts be reviewed and variations between years be explained.

There being no further questions Chairman Rosen directed the Committee to BERS financial statements and management letter.

3. BERS

Mr. Hederman reported on the results of operations for BERS, noting that it is the smallest of the pension systems. BERS' investments increased by 20 percent in fiscal year 2013 from the prior year. In 2013 investments were over \$3 billion and for the second year BERS had no management comments.

A question and answer session followed. Several matters were discussed, including:

- It was suggested by Audit Committee members that the System's CAFRs should follow the same format; and the Bureau of Accountancy offered to assist in developing a template.
- Audit Committee members noted that some reported amounts and disclosures had immaterial inconsistencies, and that more careful editing seemed called for.

There being no further questions Chairman Rosen directed the Committee to FIRE's financial statements and management letter.

4. FIRE

Mr. Garcia discussed the results of operations of the FIRE pension system. He noted that usually when NYCERS' investments perform well then the Fire pension system's investments perform well. A question and answer session followed. Several matters were discussed, including:

- While the 2013 CAFR disclosed that FIRE ranked in the third quartile of the BNY Mellon Public Master Trust Universe, FIRE has moved up in the rankings and is now just below the first quartile.
- The amount that members may be borrowed as a pension loan varies on the member's Tier and length of service; all loans bear an interest rate of 8.25%.
- Audit Committee members noted that some reported amounts and disclosures had immaterial inconsistencies, and that more careful editing seemed called for.

There being no further questions Chairman Rosen directed the Committee to POLICE's financial statements and management letter.

5. POLICE

Mr. Papilsky reported on the results of operations of the POLICE pension system, including that net position and benefits increased in fiscal year 2013. Member contributions in fiscal year 2013 increased by 6 percent, and employer contributions increased by 1.6 percent. There was a transfer of \$8.2 million from POLICE to PSOVSF in fiscal year 2013. Regarding securities lending, POLICE

originally had a \$15 million loss related to the investments made with the collateral, and are still owed \$4.6 million.

During a question and answer session followed, Audit Committee members noted that some reported amounts and disclosures had immaterial inconsistencies, and that more careful editing seemed called for.

There being no further questions the Chair thanked the representatives of the Plans and VSFs for their participation at today's meeting.

There being no further business before the Committee, the meeting was adjourned at 12:00 p.m.