

Audit Committee Meeting – April 22, 2015

I. Call to Order and Roll Call

Mr. Bernard Rosen, Audit Committee Chair, called the meeting to order at 9:30 a.m. Ms. Jacqueline Thompson, Committee Secretary, took roll call. A quorum was present.

II. Review of the Draft Minutes of the Audit Committee Held March 25, 2015

The first order of business was the approval of the draft minutes of the March 25, 2015 Audit Committee meeting. The Chair inquired if there were any comments on the draft minutes as presented. Subject to the non-substantive editorial comments submitted to the Committee Secretary, the Chair called for a motion to approve the minutes; Mr. Spitzer made a motion; the motion to approve the minutes of the March 25th meeting carried unanimously.

III. Financial Statements and Comprehensive Annual Financial Reports the City's Retirement Systems

The next agenda items were the reviews of the financial statements and comprehensive annual financial reports (CAFRs) of the City's retirement systems:

- Teachers' Retirement System of The City of New York
- New York City Board of Education Retirement System
- New York City Employees' Retirement System
- New York City Police Pension Funds
- New York Fire Department Pension Funds

Before the retirement systems proceeded to present their financial statements and CAFRs, Ms. Michele Levine provided a brief reminder to the Committee of the changes to City retirement system reporting. Ms. Levine noted that the Comptroller's Office and the Office of Management and Budget, working closely with the retirement systems, re-formatted their financial statements so that the reporting entity included each of the plans in each of the systems. For example, for NYCERS, all of the variable supplements funds (VSFs) related to NYCERS were included in its Financial Statements this year, as opposed to in prior years, when the VSFs were reported on separately. The same changes were made for the other four pension systems, for which the VSFs or the tax deferred annuity plan programs have been included in their financial statements. This is also reflected in how the City rolled the system statements up into its CAFR.

New York City Teachers' Retirement System

The first review was provided for the financial statements and CAFR of the New York City Teachers' Retirement System (TRS) for the fiscal year ended June 30, 2014. Mr. Mitchell Fruchter, Accounting Manager at TRS, introduced the other TRS representatives present and Mr. Mike Malloy, Audit Manager at Deloitte & Touche, LLP, (D&T) TRS' independent auditor.

Mr. Fruchter provided an overview of TRS' financial statements and highlighted the following:

- The fixed-fund investments in TRS' Tax Deferred Annuity Program (TDA) and Qualified Pension Plan (QPP) were pooled and invested together.
- TRS' QPP paid out \$1 billion dollars to TRS' TDA. The fixed-fund investments had a 7 percent guaranteed interest rate that is due to members.

- TRS' QPP is a multi-employer defined-benefit pension plan consisting of employees from the New York City Department of Education (DOE), the City University of New York (CUNY), and certain New York City Charter Schools. The employers share in the cost of the QPP plan and their employees may participate in the TDA Program.
- Each retirement system and fund has its own investment advisors.

A question and answer session followed and the main issues were:

- The investment returns of 6.6 percent may have appeared to be low because they were based on a two-year lag.
- The private market investments were monitored using an internal rate of return. There were separate private equity and real estate consultants who monitor the portfolio.
- Audit Committee members pointed to the need for more independent evaluation of the rate-of-return for public equities.
- The Comptroller's Bureau of Asset Management (BAM) and the consultants responsible for risk management.
- The Audit Committee requested that the risk management group make a presentation to the Committee as to what they do and how they evaluate risk. Ms. Levine and Mr. David Jeter will investigate this.
- The TRS' QPP may take advantage of the fixed fund investment option that the TRS' TDA offers.
- The Comptroller's Office reviewed TRS' financial statements and made some minor editorial suggestions.

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

New York City Board of Education Retirement System

The next agenda item was the review of the financial statements and CAFR of the New York City Board of Education Retirement System (BERS) for the fiscal year ended June 30, 2014. Mr. Rick Hederman, Director of Fiscal Operations at BERS, introduced the other representatives of BERS present and noted that D&T was BERS independent auditor. Mr. Hederman provided an overview of the BERS statements, followed by questions and answers.

[Mr. Mark Kaplan arrived at 10:07 a.m. and joined the meeting in progress.]

The main issues were:

- BERS had a successful year. Its investments within the fixed return fund returned 19.5 percent, surpassing the benchmark of 18.3 percent. BERS investment's market value cleared another milestone and ended fiscal year 2014 at \$4.2 billion. The actuary and consultants determine what the benchmarks and targets are for the year.
- BERS requested a meeting with a subcommittee of the Audit Committee. The Committee Secretary and BERS will work out an acceptable date for the meeting.
- BERS is the best performing retirement system in the City.
- BERS avoids hedge funds as a part of its philosophy. The System has the same allocation to infrastructure and real state as the other retirement systems and funds.

- The term “obligations to sacrifice resources,” on page 3 of the financial statements, is a reference to part of the Governmental Accounting Standards Board definition of a liability.
- The life of a collateral security loan is about 27 days.
- New York State, through an audit by the Department of Fiscal Services (DFS) is examining the costs of investment managers.

There being no further questions the Chair thanked the representatives of BERS for their participation at today’s meeting.

New York City Employees Retirement System

The next agenda item was the review of the financial statements and CAFR of the New York City Employees Retirement System (NYCERS) for the fiscal year ended June 30, 2014. Mr. John Hartman, Deputy Director of Finance at NYCERS, introduced the other representatives of NYCERS present and noted that D&T was NYCERS’ independent auditor. Mr. Hartman provided an overview of the NYCERS’ statements, followed by questions and answers.

The main issues were:

- The member benefits of NYCERS’ Variable Supplement Funds (VSF) are capped at \$12,000 per year if there is money available in the VSFs. Calendar year 2014 was the first year that all members received benefits since 2006. The Fire and Police VSFs are guaranteed a yearly benefit regardless of whether there is money in their respective VSFs. Corrections Officers, up until 2019, did not have this guarantee.

- Many members take loans from their pensions; however, if they do not pay their entire loan balance off by retirement, they receive a reduced benefit.
- Employer contributions far outweigh member contributions. In 2014, the City contributed \$9.6 billion for NYCERS' QPP and the members contributed about \$607 million.
- NYCERS did not invest in commodities.
- The language in Note 3 needs to be clarified regarding custodial credit risk. The fact that NYCERS had uninsured securities was not a custodial issue.
- The investment performance in 2014 will affect the contributions in 2016.
- Disabilities claims associated with September 11 have not dramatically impacted the liabilities in an unforeseen way; however, the broadening of which claims will be allowed, has not yet been completed may impact the line-of-duty benefits.

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

New York City Police Pension Fund

The next agenda item was the review of the financial statements and CAFR of the New York City Police Pension Fund (POLICE) for the fiscal year ended June 30, 2014. Mr. Abraham Papilsky, Chief Accountant at POLICE, introduced the other representatives of POLICE present and noted that D&T was POLICE's independent auditor.

Mr. Papilsky provided an overview of POLICE's financial statements, followed by questions and answers:

- It was a good year for POLICE; the combined investments increased to \$34 billion in 2014.
- The security lending loss was down to \$828,758; which was from two incidents, one going back to 2002 and the other from Lehman Brothers.
- From 2013 to 2014 there was a sizable decrease in equity securities from 11.5 percent to 7.8 percent, and an increase in U.S. treasuries bills and agencies investments from \$137 million to \$642 million.
- All of the Retirement Systems and Funds they have lowered their exposure to U.S. equity securities. The differences in asset allocations between the Retirement Systems and Funds are not sizeable.
- Ms. Levine will discuss with the Law Department the responsibility of the Audit Committee, following a discussion regarding whether the Committee was signing off on the blue books, the complete CAFRs, or both.

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

New York City Fire Pension Fund

The next agenda item was the review of the financial statements and CAFR of the New York City Fire Department Pension Fund (FIRE) for the fiscal year ended June 30, 2014. Mr. Angel Garcia, Chief Accountant at FIRE, introduced the other representatives of FIRE present and

noted that D&T was FIRE's independent auditor. Mr. Garcia provided an overview of the FIRE financial statements followed by questions and answers.

The main issues were:

- FIRE had a good year; total assets increased by 16.7 percent in fiscal year 2014.
- The wording on page 21, regarding cash collateral will be clarified.
- FIRE is considering having a specialist in securities lending on staff or as a special consultant.
- The wording on the last paragraph on page 24 of the financial statements on custodial credit risk will be corrected.

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

IV. Executive Session

With no further business for the public session, the Chair asked for a motion for the Committee to enter the Executive Session to discuss non-public financial matters. The motion was made by Ms. Levine, was unanimously approved, and the Committee moved into Executive Session.

With no further Executive Session business, Mr. Larson made a motion to adjourn, it was unanimously approved, and the Committee adjourned until the next scheduled meeting on May 20th, at 9:30 a.m.