



**AUDIT COMMITTEE OF THE CITY OF NEW YORK  
MINUTES OF THE AUDIT COMMITTEE MEETING  
WEDNESDAY, APRIL 26, 2017  
AT THE OFFICE OF THE COMPTROLLER**

**ATTENDANCE**

<b>Chair</b>	Bernard Rosen
<b>Private Members</b>	Bud Larson Michael Spitzer
<b>Public Members</b>	<b>Representing the Mayor</b> – Nicole Fleming <b>Representing the Comptroller</b> – Michele Mark Levine <b>Representing the Public Advocate</b> – Umair Khan
<b>Secretary</b>	Jacqueline Thompson
<b>Independent Auditors</b>	<b>Grant Thornton LLP</b> – Marla Hummel, Cosmo Saginario <b>Marks Paneth LLP</b> – Roseanne Bowen, Hope Goldstein, Michael Kaplan, Richard Nathan
<b>Others</b>	<b>New York City Teachers' Retirement System</b> – Kate Chen, Mitchell Fruchter, Michael Henschel, Barbara Owczarczyk <b>New York City Board of Education Retirement System</b> - Jean Daniel Desmornes, Sanford Rich, Chithra Subramanian <b>New York City Employees Retirement System</b> – Michael Goldson, Chun Gong, John Hartman <b>New York City Police Pension Fund</b> –Bavakutty Sunny, Charles Mistretta, Kamelia Tawdros <b>New York City Fire Pension Fund</b> - Agnes Chan, Albert Connolly, Maureen Dale <b>New York City Mayor's Office of Operations</b> – Florim Ardolli, George Davis <b>New York City Office of Management &amp; Budget</b> – Enid Ellis, Xiaochao Jin, Syed Omair Hassan <b>New York City Office of the Actuary</b> – Sherry Chan, Michael Samet

**New York City Comptroller's Office** – Camille Arezzo, Jackson Blain, Rosa Charles, Susan Cornwall, Louis Eng, Ashley Fernandez, Leonel Ferreira, Lynne Fleischman, Sabrina Ho, Patricia Kearns, Berta Lara, Veronika Musheyeva, Jessica Sanchez, George Siavichay, Katrina Stauffer

## Audit Committee Meeting – April 26, 2017

### **I. Call to Order and Roll Call**

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

### **II. Approval of the Draft Minutes of the Audit Committee Meeting held March 22, 2017**

The first agenda item was the approval of the draft minutes of the March 22, 2017 Audit Committee Meeting. Chairman Rosen inquired if there were any comments on the draft minutes as presented. Hearing none, Chairman Rosen called for a motion to approve the minutes subject to the non-substantive editorial comments submitted to Ms. Thompson; the Committee approved the draft minutes of the March 22, 2017 meeting.

### **III. Presentation of the Financial Statements and Management Letters (where applicable) for the following entities:**

- 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 City Fire Department Pension Funds

**Teachers' Retirement System of the City of New York**

The next agenda item was the review of the financial statements and management letter of the Teachers' Retirement System of The City of New York (TRS), for the fiscal year ended June 30, 2016. Mr. Mitchell Fruchter, Assistant Chief Accountant of TRS, introduced the other representatives of TRS present and Ms. Hope Goldstein, representative of Marks Paneth LLP, TRS' independent auditors.

Mr. Fruchter provided a review of the financial statements.

In fiscal year 2016, the Net Position Restricted for Benefits of the TRS Qualified Pension Plan (QPP) and the Tax Deferred Annuity (TDA) were \$43.6 billion and \$28.4 billion, respectively, resulting in a grand total of \$72 billion. The Net Position Restricted for Benefits of the QPP decreased in fiscal year 2016 by \$6.3 million from the prior year. The pension fund as a whole returned 1.66 percent, even though the guaranteed return is seven percent on all investments.

A question and answer session took place after the presentation. Several matters were discussed including:

- The City, through the TRS pension plan, funds the TDA's fixed fund investment option, which has guaranteed rates of return of 7 percent for most members
- TRS as a whole has approximately 65 percent of its investments in equities, including private equities. The Pension Fund is managed by the Comptroller's Office's Bureau of Asset Management (BAM). TRS has other investment managers, primarily in its TDA variable return plan.
- A Committee member expressed concern regarding the ability to measure the value of private equities and feels it is an extra layer of risk to be cognizant of when balancing the

portfolio. Mr. Umair Khan, noted that efforts are underway to have greater evaluations within the private equity area as far as oversight and accountability.

- A Committee member stated that, because of the similarities between TRS and the Board of Education Retirement System (BERS), the two Systems should be presented in a consistent manner where the underlying facts and circumstances are the same or similar.
- For funding purposes, gains and losses are phased in over six years; 15 percent for the first four years, and 20 percent for the last two years. The actuarial value of assets used for valuation is different than for financial reporting purposes.
- A “no material weakness letter” was issued for TRS. The letter contained enhancements suggested for Information Technology (IT) practices.
- A Committee member noted that TRS was the only system that did not have a management comment in reference to protection of personally identifiable information, and asked if that was an oversight. Mr. Richard Nathan, Principal – Audit Technology of Marks Paneth, LLP stated that there was no IT comment for TRS because it has tight controls, including digital controls for the transfer of information.
- It was noted that a focus is needed on a way of sharing best practices and resources across all five pension systems.

There being no further questions, Chairman Rosen 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 management letter of the New York City Board of Education Retirement System (BERS) for the fiscal year ended June 30, 2016. Mr. Jean-Daniel Desmornes, Chief Accountant of BERS, introduced the other representatives of BERS present and noted that Marks Paneth were BERS' independent auditors. Mr. Desmornes provided a brief summary of BERS' financial statements. In fiscal year 2016, BERS Total Net Position Held in Trust for Benefits was over \$5 billion. The QPP's Net Position Held in trust for Benefits was \$3.4 billion, and the TDA Program's net position was \$1.6 billion in fiscal year 2016. BERS restated the fiscal year 2015 combining financial statements to retrospectively apply the change in accounting allocation of investments between the QPP and TDA.

A question and answer session took place after the presentation. Several matters were discussed including:

- A Committee member requested a breakdown of TDA members, by participants and dollar amounts, who receive seven percent and 8.25 percent in the TDA fixed program. BERS will supply the information to Ms. Thompson. [Response was received and distributed to Audit Committee members on May 2, 2017.]
- A Committee member suggested that BERS include in their Management's Discussion and Analysis (MD&A) a table that would explain the impact of the TDA's fixed return guaranteed interest rate on the QPP; a similar table should be included for TRS in their financial statements.
- The total investment income for the fixed- return fund was determined by BAM.

- A breakdown of part-time members will be provided to Ms. Thompson. [Response was received and distributed to Audit Committee members on May 2, 2017.]
- Specific policies and procedures for the oversight and control of IT access were not included in BERS management letter because BERS has undergone major staffing and readjustments, as well as a computer system changeover, due to go live on May 30<sup>th</sup>.
- Ms. Goldstein explained that this year's observations and recommendations will be added to next year's report with an update on all comments made today, as well as the reporting of new practices in place.

Ms. Levine thanked TRS, Office of the Actuary, and Marks Paneth staff for their work on understanding the need for and calculating the necessary fiscal year 2015 restatement. It was a major effort and improved the financial statements.

There being no further questions, Chairman Rosen 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 management letter of New York City Employees' Retirement System (NYCERS) for the fiscal year ended June 30, 2016. Mr. Michael Goldson, Director of Finance at NYCERS, introduced the other representatives present and noted that Marks Paneth were NYCERS' independent auditors.

Mr. Goldson provided a brief summary of NYCERS financial statements. In fiscal year 2016, NYCERS portfolio performance was 1.52 percent, less than NYCERS' Policy benchmark, which had a rate of return of 2.28 percent. Domestic equities returned 1.68 percent, less than the Russell

3000 benchmark of 2.14 percent. International equities returned (8.4) percent; more than the Morgan Stanley Capital International All Country World Index of (10.24) percent. Fixed income securities returned 4.29 percent; and private equity returned 6.36 percent. Private real estate earned 12.95 percent, as compared to the benchmark of 11.9 percent. Total Net Position Restricted for Benefits increased by less than one percent, to \$55.5 billion in fiscal year 2016 as compared to the prior year. Actuarially determined fiduciary net position as a percentage of the plan's total pension liability decreased to 69.57 percent. The QPP transferred to four of the five Variable Supplement Funds (VSFs) approximately \$5.7 million in benefit payments. The Correction Officer Variable Supplement Fund did not receive a benefit payout for fiscal year 2016.

A question and answer discussion followed. Several matters were addressed, including:

- Domestic equities are 33.8 percent, and international equities are 16.8 percent of the total portfolio.
- The decrease in the amount payable for investment securities purchased resulted from the timing of the purchases.
- The benefit to the Correction Officers VSF is the same as for the POLICE VSFs, which is \$12,000 per year if the funds are available.
- Alternative investments include only a small position in hedge funds, and by 2018 they will be phased out. Private equity, real estate, and infrastructure are also considered alternative investments.
- SAGE 300 is the accounting system used by NYCERS.



- NYCERS Internal Audit Division will include in its annual plan, testing of the census information used by the Office of the Actuary.

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

### **New York City Police Pension Funds**

The next agenda item was the review of the financial statements and management letter of the New York City Police Pension Funds (POLICE) for the fiscal year ended June 30, 2016. Ms. Sunny Bavakutty, Acting Chief Accountant at POLICE, introduced the other representatives of POLICE and noted that Marks Paneth were POLICE's independent auditors.

Ms. Bavakutty provided a review of the financial statements. In fiscal year 2016, POLICE's combined financial statement shows that Total Net Position Restricted for Benefits increased by \$153.4 million, or 0.44 percent, in fiscal year 2016 from the prior year due to a net increase in assets and the continued growth of the national economy. Dividend income decreased, while benefit payments and withdrawals increased to \$2.88 billion due to an increase in the number of retirees. Member contributions increased by 3.6 percent primarily due to more members electing to increase their member deduction. Employer contributions increased by 3.7 percent, and there was an increase of 3.2 percent in administrative expenses due to the settlement of union contracts.

A question and answer discussion followed. Several matters were addressed, including:

- Citibank is the outside securities lender and it provides monthly reports.
- No transfers were needed for the VSFs.

- The Executive Director is a uniformed member on leave from the New York City Police Department.
- The review by POLICE of affidavits is an additional step to a match of member listings to the Social Security Administration's database of deceased persons, as not all deaths are reported and beneficiary (survivors') social security numbers are not listed in the POLICE pension system. A Committee member suggested that the beneficiary social security numbers be kept on file to cross-reference for matching, against the social security database in addition to or where an affidavit is not available.
- The management letter comment regarding penetration testing was discussed and it is recommended that IT set up procedures to ensure employees are adhering to policies and procedures.

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

### **New York City Fire Department Pension Funds**

The next agenda item was the review of the financial statements and management letter of the New York City Fire Department Pension Funds (FIRE) for the fiscal year ended June 30, 2016. Ms. Maureen Dale, Chief Accountant at FIRE, introduced the other representatives of FIRE and noted that Marks Paneth were FIRE's independent auditors.

Ms. Dale provided a review of the financial statements. In fiscal year 2016, the combined net position restricted for benefits increased by 0.5% to \$11.7 billion from the prior year. A net depreciation in the fair value of FIRE's investment portfolio contributed to the overall lower net investment income reported for the period. Reported net investment income was \$203 million in

fiscal year 2016, which was 33 percent less than the previous period. Benefit payments and withdrawals reported were over \$1.3 billion due mainly to settlement of union contracts, which enabled FIRE to finalize and pay benefits for over 700 members who had retired in prior years and had only been receiving 90 percent of their estimated benefits. These retirees now receive full benefits. In addition, 400 new retirees were added to the rolls. Both member contributions and employer contributions increased by over six percent in fiscal year 2016 over the prior period. Overall, the combined contributions and the net investment income allowed FIRE to cover its benefit payments and grow.

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

- The hypothetical interest rate used for the “skim” transfer is a ten-year average of the Treasury rates. Currently it is approximately two percent.
- BAM supervises the investments for FIRE and the other pension systems across the board.
- The management letter comment referring to the New York City Fire Department’s Employment Eligibility Verification Form (Form I-9) is related to the candidate investigation unit from the Personnel Department.
- In reference to participant contributions, the members who have aged-based contributions include all members who joined prior to July 1, 2009.
- It was suggested that the IT directors of the individual systems collaborate to share best practices from system to system. Also, a metrics summary chart could be created to identify areas of similar problems and identify remediation needs.

Chairman Rosen thanked representatives from the Office of the Actuary and Bureau of Asset Management for their attendance and comments today.

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

#### **IV. Adjournment**

There being no further business before the Committee, Chairman Rosen made a motion to adjourn the April 26, 2017 meeting; the motion was unanimously approved.