



**AUDIT COMMITTEE OF THE CITY OF NEW YORK  
MINUTES OF THE AUDIT COMMITTEE MEETING  
WEDNESDAY, APRIL 25, 2018  
AT THE OFFICE OF THE COMPTROLLER**

**ATTENDANCE**

<b>Chair</b>	Michael Spitzer
<b>Private Members</b>	Mark Kaplan Bud Larson Bernard Rosen
<b>Public Members</b>	<b>Representing the Mayor</b> – John Grathwol <b>Representing the Comptroller</b> – Jacqueline Thompson <b>Representing the Public Advocate</b> – Umair Khan
<b>Secretary</b>	Katrina Stauffer
<b>Independent Auditors</b>	<b>Grant Thornton LLP</b> – Marla Hummel, Cosmo Saginario <b>Marks Paneth LLP</b> – Roseanne Bowen, Hope Goldstein, Joseph Kanjamala, Michael Kaplan, Richard Nathan, Talieh Sadri
<b>Others</b>	<b>New York City Teachers' Retirement System</b> – Kate Chen, Mitchell Fruchter, Barbara Owczarczyk, David Yerushalmi <b>New York City Board of Education Retirement System</b> – Jean-Daniel Desmornes, Chithra Subramanian <b>New York City Employees Retirement System</b> – Mario Disanto, Michael Goldson, Chun Gong <b>New York City Police Pension Fund</b> – Sunny Bavakutty, Stanley Thomas <b>New York City Fire Pension Fund</b> – Agnes Chan, Albert Connolly, Maureen Dale <b>Bolton Partners, Inc.</b> – Colin England, Thomas Lowman <b>New York City Mayor's Office of Operations</b> – George Davis <b>New York City Office of Management &amp; Budget</b> – Enid Ellis, Xiaochao Jin, Raymond Lee <b>New York City Office of the Actuary</b> – Frankie Chen, Craig Chu, Edward Hue, Michael Samet

**New York City Comptroller's Office** – Camille Arezzo, Robert Blandi, Rosa Charles, Man Hon Cheung, Leonel Ferreira, Lynne Fleischman, Michael Hecht, David Jeter, Patricia Kearns, Veronika Musheyeva, Preston Niblack, Jessica Sanchez, George Siavichay, Joan Stapleton, Andres Teran, Marina Verba, Mehdi Ben Zafar

## Audit Committee Meeting – April 25, 2018

### **I. Call to Order**

Ms. Katrina Stauffer, the Audit Committee Secretary, called the meeting to order at 9:45 a.m.

### **II. Nomination for Chair of the Audit Committee**

The first agenda item was the appointment of the Audit Committee Chairman. Mr. Bernard Rosen nominated Mr. Michael Spitzer as Chairman of the Audit Committee. By unanimous vote, Mr. Spitzer was elected as Audit Committee Chairman.

### **III. Nomination for Secretary of the Audit Committee**

The next agenda item was the appointment of the Audit Committee Secretary. Mr. Bernard Rosen made a motion to nominate Ms. Stauffer to serve as Audit Committee Secretary. By unanimous vote, Ms. Stauffer was re-elected as Audit Committee Secretary.

### **IV. Roll Call**

Ms. Stauffer took roll call. A quorum was present.

### **V. Adoption of the By-Laws**

The next agenda item was the adoption of the Audit Committee by-laws in accordance with Article IV, Section 3. Mr. Rosen made motion to adopt the by-laws. Chairman Spitzer noted that Mr. Mark Kaplan would like to have the by-laws reviewed and possibly changed. The Audit Committee by-laws were adopted by unanimous vote, and will be reviewed in the future for changes.

## **VI. Approval of the Draft Minutes of the Audit Committee Meeting held March 28, 2018**

The next agenda item was the approval of the draft minutes of the March 28, 2018 Audit Committee Meeting. Chairman Spitzer inquired if there were any comments on the draft minutes as presented. Hearing none, Chairman Spitzer called for a motion to approve the minutes subject to the non-substantive editorial comments submitted to Ms. Stauffer; the Committee approved the draft minutes of the March 28, 2018 meeting.

## **VII. Presentation of the Financial Statements and Management Letters for the following entities:**

The next agenda item was the review of the financial statements and management letters of the following entities for the fiscal year ended June 30, 2017:

- 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**

Mr. Mitchell Fruchter, Assistant Chief Accountant of the Teachers' Retirement System of the City of New York (TRS), introduced the other representatives of TRS present and the representatives of Marks Paneth, NYCERS' independent auditors.

Combination financials include the Qualified Pension Plan (QPP), qualified under the Section 401(a) of the Internal Revenue Code (IRC), and the Tax Deferred Annuity (TDA) plan, qualified under the Section 403(b) of the IRC. This is the fourth year these financials have extra funding and asset allocation disclosures for GASB Statement No. 67 and GASB Statement No. 68. It is the third year for investment level disclosures for GASB Statement No. 72. The basic financial statements have grown, due to enhanced disclosures. TRS' net position QPP was at \$50.1 billion, up from \$43.6 billion, or 15 percent. The TDA net position was \$31.1 billion, up from \$28.4 billion, or 9.5 percent. The QPP and TDA combined were \$81.1 billion. The combined figure appears in the City's CAFR on page 180 and as a combined figure. TRS is the City largest Retirement System. The Russell 3000, a broad measure of U.S. equity markets, returned 18.5 percent; Morgan Stanley International returned 20.83 percent; and the New York City Core's fixed return composite was basically flat. The pension fund return of 12.5 percent was above the expected 7 percent. Over a 10-year period, TRS had a 5.7 percent return for the pension fund; over the 15-year period, the return was 7.5 percent.

TRS had \$6 billion more as of March 31 than at year-end. In the summary of its investments, Prior to the question and answer session, Chairman Spitzer asked the members of the Comptroller's Bureau of Asset Management (BAM) and the members of the New York City Office of the Actuary to introduce themselves.

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

- Trustees make the final decision as to how the assets are invested.
- Currently there is no analysis program that indicates when two managers are buying and selling within the same fund. A risk management system is being implemented that will allow tracking of the information.
- [The term “net investment income” refers to all income, both realized and unrealized. The term comes from the financial statements themselves and should not be changed to “net investment returns” or another suggested language.]<sup>1</sup>
- [The sentence containing “overdrawn balance,” which existed for many years, specifically refers to the moment when the check is presented. Next year, TRS will exclude that sentence.]
- [Regarding “extensive benchmarks,” TRS will exclude the term, using “various benchmarks” instead.]
- [The reference to collateral being invested short-term bearing funds will be corrected to: “The borrowers provide collateral to TRS that is valued in excess of the securities loaned, either as cash or short-term securities. Cash collateral is in turn invested in short-term interest bearing funds.”]
- The securities lending agent is responsible for the watching margin.
- [The reference to hedge funds will be excluded in the coming year.]

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<sup>1</sup> All text in [brackets] reflects information that was confirmed subsequent to the Audit Committee Meeting.

- [Regarding intrafund payables, the word “reflected” will be excluded, and the sentence reworded.]
- [On page 29, “to limit” will be changed to “an attempt to limit.”]
- [On Page 30 the statement regarding 5 percent investment will be reworded as follows: “Excluding investments in U.S. debt securities, the System's investment programs do not have any investments in any one entity that represents 5 percent or more of its assets.”]
- Many of the items from the prior years noted in the management letter have been resolved. Work is in progress on the remainder.
- Regarding cybersecurity insurance, the auditors are recommending the options of self-insuring or adding to an existing policy. Reviews are in process to identify risks.
- Research may be conducted by the Committee as to the indemnity of the fund trustees. (As mentioned in the meeting, the indemnity is a legal matter though the history and the assumption of the committee was that the City is liable.)

There being no further questions, Chairman Spitzer thanked the representatives of TRS for their participation in today’s meeting.

### **New York City Board of Education Retirement System**

Mr. Jean-Daniel Desmornes, Director of Fiscal Operations of the New York City Board of Education Retirement System (BERS) and Ms. Chithra Subramanian, BERS’ Accounting Unit Chief, introduced themselves to the Committee, and noted that Marks Paneth were BERS’ independent auditors.

Assets grew to \$6 billion, up almost \$800 million, due to strong investment performance.

Membership held at around 50,000 members, but there is a shift in the composition of the

membership from active members to retirees. BERS members' contributions to the TDA increased 11 percent, and QPP contributions returned to 2015 level after a slight decrease in 2016. A combination of a decline in the active population and higher contributing rates for Tier 6 is at the basis of these changes.

BERS recently built up a new Enterprise Resource Planning (ERP) system that went live May of last year. An RFP will be sent out next week for new accounting software, as the current software is no longer supported by the vendor.

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

- BERS will confirm whether bank accounts are insured per account or per member.
- The projected 3 percent salary increase is a combination of inflation plus merit and promotion.
- The Committee noted that the reference to the data backup and restoration consultant is part of the larger umbrella of cyber security, and emphasized the necessity for this process to be accelerated to occur well before the estimate of completion in 2019.

There being no further questions, Chairman Spitzer thanked the representatives of BERS for their participation in today's meeting.

### **New York City Employees' Retirement System**

Mr. Michael Goldson, Director of Finance of the New York City Employees' Retirement System (NYCERS), introduced the other representatives of NYCERS present and noted that Marks Paneth were NYCERS' independent auditors.



The QPP's net position reached \$61.3 billion, up from \$55.5 billion. The Variable Supplements Fund's (VSF) net position was at \$288 million up from \$5 million. The QPP and VSF combined were \$61.6 billion, an increase of \$6.1 billion, mostly explained by a higher return on investments, especially international and domestic equity sectors. The total pension fund returned was 12.99 percent, beating policy benchmark of 12.93 percent. Domestic equity, which counts for almost one third of the total portfolio, returned 18.09 percent, lower than the Russell 3000 benchmark of 18.51 percent. International equity returned 22.69 percent and U.S. fixed income returned 3.14 percent.

Based on the entry age method, the funded ratio was at 70 percent as of June 30, 2015, which is data from the most recent actuarial valuation. The fiduciary net position represents 74.8 percent of total pension liability for NYCERS in the five VSFs and as required by GASB Statement No. 67, *Financial Reporting for Defined Benefit Pension Plans—An Amendment of GASB Statement No. 25*. Based on the actuaries' estimate, a SKIM was payable to the correction officers' VSF in the amount of \$281 million. In December, NYCERS transferred 90 percent of the estimate, which is \$252 million, from QPP to correction officers' VSF. There were sufficient funds for COVSF to make a payment for calendar year 2017. Starting in calendar year 2019, the \$12,000 per year payments will be guaranteed by law.

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

- Underfunded funds found on page 41 are smaller funds, housing and transit, that ran out of money long ago and, by law, NYCERS is required to make them whole to pay the

remaining benefits. There are no new entrants, it's the remaining housing and transit from back when NYCERS encompassed all of those entities.

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

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

Mr. Stanley Thomas, Director of Accounting of the New York City Police Pension Funds (POLICE), and Ms. Sunny Bavakutty introduced themselves to the Committee, and noted that Marks Paneth were POLICE's independent auditors.

The fund net position increased by \$3.9 billion, to \$39.2 billion. A major factor for the increase was an increase in net investment income and continued growth in the overall economy.

Member contributions increased by 11 percent, to \$276.3 million. Payments and withdrawals increased to \$2.98 billion, as a result of an increase of number of retirees. Administration expenses increased by 2 percent. Overall, based on the independent auditor's report, POLICE was fairly stated in all material respects and is in accordance with the general accepted accounting principles.

Based on the auditors' recommendations, the implementation of the COPS system is scheduled for May and should address many of the recommendations provided by the auditors.

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

- The funding ratio for POLICE was 75.19.
- The verbiage referring to "ad hoc cost-of-living increases" will be removed.

- The entire paragraph found on Page 20, titled “Securities Lending Transactions” will be revised.
- Regarding limits on securities lending, BAM stated there are currently no limits and an agent can lend up to 30 percent of a fund’s portfolio, although it is typically closer to 15 to 20 percent.
- With regards to indemnification, for any difference in shortfall between the security and the collateral being liquidated, Citibank will indemnify and cover that amount.
- Statements that accounts are insured by FDIC or collateralized will be reviewed across all systems to verify consistency.
- Fund listing exposure should be listed in value order; POLICE will review and correct.
- Regarding references to cost of living adjustments (COLA), BAM noted that some members receive COLA, and some receive escalation. Both are increases to pensions after retirement.
- Based on recommendations and a new CIO, changes have been implemented to restrict IT access to all programmers. Once the COPS system is set in place, there will be internal controls for monitoring.
- There has been no testing of network vulnerability, which is critical, and needs to be done sooner rather than later.

There being no further questions, Chairman Spitzer thanked the members of POLICE for their participation at today’s meeting.

**New York City Fire Pension Funds**

Mr. Albert Connolly, Director of Administration of the New York City Fire Pension Funds (FIRE), introduced the other representatives of FIRE present, and noted that Marks Paneth were FIRE's independent auditors.

The combined net position restricted for benefits reported was \$12.9 billion, a 10.7 percent increase. Combined net investment income across the funds was \$1.37 billion. The increase was due mainly to solid performances in the equity sector of the portfolio. The fiduciary net position as a percentage of total pension liability was 60.95 percent, up from 56.8 percent. On the activities side, there was \$108.4 million in member contributions, 7 percent less than the prior period, which had included retroactive contributions due to the contract settlement. Employer contributions was approximately \$1.06 billion, or a 0.6 percent increase. Combined benefit payments to members and beneficiaries were approximately \$1.33 billion, including VSF payments of \$47.2 million to firefighters, and \$21.7 million to fire officers. The FDNY hired over 600 probationary firefighters, who now contribute to the Tier 3 modified enhanced plan. Over 440 new retirees were added to the pension rolls.

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

- Corpus funding hasn't started yet. The Fire Department maintains control of the computer system and FIRE was not able to obtain information on the status of the Commvault evaluation.

- No information is available on the status of the grant application for the Urban Area Security Initiative applied for through the Department of Homeland Security. The pension fund members were not included in those meetings.

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

### **VIII. Actuarial Audit Presentation by Bolton Partners**

The next agenda item was the Actuarial Audit presented by Mr. Colin England and Mr. Tom Lowman, actuaries from Bolton Partners, Inc., who provided a PowerPoint presentation for the Committee's review. A list of questions and answers, related to the Actuarial Audit, were also presented.

Both of those presentations are included as part of these Audit Committee Meeting minutes, on the following pages.

Chairman Spitzer thanked the members of Bolton Partners, Inc. for their participation at today's meeting.

### **IX. Executive Session**

There being no further business for the public session, Chairman Spitzer asked for a motion to enter Executive Session; a motion was made to go into Executive Session for the purpose of discussing non-public financial information about the City. The motion was unanimously approved.

## **X. Adjournment**

Following the conclusion of the Executive Session, a motion was made to adjourn the April 25, 2018 Audit Committee Meeting; the motion was unanimously approved.