



**AUDIT COMMITTEE OF THE CITY OF NEW YORK
MINUTES OF THE AUDIT COMMITTEE MEETING
WEDNESDAY, JANUARY 23, 2019
AT THE OFFICE OF THE COMPTROLLER**

ATTENDANCE

Chair	Michael Spitzer
Private Members	Mark Kaplan Bud Larson Bernard Rosen
Public Members	Representing the Mayor – John Grathwol Representing the Comptroller – Jacqueline Thompson Representing the Public Advocate – Umair Khan
Secretary	Katrina Stauffer
Independent Auditors	Grant Thornton LLP – Marla Hummel, Mike Ryan, Cosmo Saginario Marks Paneth LLP – Roseanne Bowen, Hope Goldstein, Joseph Kanjamala, Richard Nathan, Talieh Sadri, Melissa Szot
Others	New York City Teachers' Retirement System – Kate Chen, Mitchell Fruchter, Barbara Owczarczyk, David Yerushalmi New York City Board of Education Retirement System – Jean-Daniel Desmornes, Iyekeze Ezefili, Chithra Subramanian New York City Police Pension Fund – William Dorney, John Flynn, Bavakutty Sunny, Stanley Thomas New York City Employees Retirement System – Charles Barkley, Herman Bernal, Mario Disanto, Michael Goldson, Chun Gong New York City Fire Pension Fund – Agnes Chan, Albert Connolly, Maureen Dale New York City Other Postemployment Benefits Plan – Andrew Dowling, Raymond Lee New York City Mayor's Office of Operations – Florim Ardolli, George Davis New York City Office of Management & Budget – Enid Ellis, Xiaochao Jin, William Kennely New York City Office of the Actuary – Sherry Chan, Frankie Chen, Edward Hue, Tom O'Hara

New York City Comptroller's Office – Camille Arezzo, Rosa Charles, Man Hon Cheung, Leonel Ferreira, Lynne Fleischman, David Jeter, Veronika Musheyeva, Cara Schnaper, George Siavichay, Joan Stapleton, Susanna Tregor, Steve Veloric, Mehdi Ben Zafar

New York City Independent Budget Office – Robert Callahan

Audit Committee Meeting – January 23, 2019

I. Call to Order and Roll Call

Mr. Michael Spitzer, Chairman of the Audit Committee, called the meeting to order at 9:30 a.m.

Ms. Katrina Stauffer, the Audit Committee Secretary, took roll call; a quorum was present.

II. Motion to Accept Draft Minutes of the Audit Committee Meeting held

December 5, 2018.

The first agenda item was the approval of the draft minutes of the December 5, 2018 Audit Committee meeting. Chairman Spitzer inquired if there were any comments on the draft minutes as presented. Subject to any non-substantive editorial comments submitted to the Secretary, the Committee approved the draft minutes of the December 5, 2018 Audit Committee Meeting.

Chairman Spitzer announced this would be the last meeting for Mr. Umair Khan, the Public Advocate Representative and, on behalf of the Committee, extended congratulations and wished him well.

III. Presentation of the Financial Statements and Management Letters (where applicable)

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, 2018:

- Teachers' Retirement System of The City of New York
- New York City Board of Education Retirement System
- New York City Police Pension Funds
- New York City Employees' Retirement System
- New York City Fire Pension Funds
- New York City Other Postemployment Benefits Plan

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 Marks Paneth LLP, TRS' independent auditors.

The past fiscal year was the fifth year that the financials combine the 401(a) pension and the 403(b) Tax Deferred Annuity (TDA) program. It was also the fifth year the financials include the GASB Statement No. 67, *Financial Reporting for Pension Plans* actuarial note disclosure.

Net position for the Qualified Pension Plan (QPP) of \$54.5 billion is 9 percent greater than \$50.1 billion of the prior year. The TDA net position increased 7.5 percent, to \$33.4 billion, up from \$31.1 billion.

Investment performance can largely be explained by investment allocations to particular market sectors, and the individual returns of those sectors. Fixed income assets made up roughly 33.5 percent; 32.5 percent in domestic equity; 21.5 percent in international equity; and 12.5 percent in alternative investments. TRS' return of roughly 9 percent overall for the net position was impacted by the various sectors. The Russell 3000 was up 14.8 percent; Morgan Stanley Capital International Index increased by 7.7 percent; the Dow Jones U.S. Select Real Estate Securities return was up by 4.2 percent; and the New York City C + 5 fixed income returned 0.5 percent. The pension fund itself returned 8.1 percent.

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

- The TDA Program is a tax-deferred annuity program described in Internal Revenue Code section 403(b) and is available as a supplemental savings option to QPP members.
- Although not required by GASB Statement No. 40, the Committee suggested a disclosure sentence be added regarding exposure of foreign stocks, as well as domestic stocks, due to currency fluctuations.
- The Actuary's office will review the large difference this year between expectation and actual results.
- TRS confirmed that net investment income of \$6 billion is a summary of the net investment income found on the Statement of Changes of Net Position.
- The TRS board has an independent audit committee.
- There were no new comments on the Management Letter.
- TRS confirmed that it is monitoring the trend, which will begin in the State of Florida in 2022, for States to require that financial statements be submitted in a XBRL format.

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), introduced the other representatives of BERS present, and noted that Marks Paneth are BERS' independent auditors.

The net position increased for both the QPP and the TDA in the combined statement. The increase was driven largely by investments; the QPP increased by 13 percent and the TDA by 11 percent. Member contributions continued to increase; there was a 4 percent increase from 2017; the TDA increased by 5 percent; the QPP increased by 3 percent.

Membership continues to grow, from 50,000 in Fiscal Year 2017 to 53,000 in Fiscal Year 2018, which includes active members and retirees. Benefit payments marginally increased, by 0.8 percent, and administrative expenses continued to decrease because of the savings from Prudential. BERS' has invested in the Comprehensive Enterprise Resource Planning Software that resulted in savings from the outside vendor.

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

- The TDA program is similar to the TRS system.
- Active members consist of part-timers, most of whom are paraprofessionals.
- Current year comments in the Management Letter are being addressed.
- In response to Committee concerns regarding auditor recommendations from 2016, specifically with regards to the data restoration testing, business continuity, and disaster

recovery planning, for which there have been no changes, BERS noted that it visited with TRS and is working to obtain the correct information to move forward.

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

New York City Police Pension Funds

Mr. Stanley Thomas, Director of Accounting and Investments of the New York City Police Pension Funds (POLICE), introduced the other representatives of POLICE present, and noted that Marks Paneth are POLICE's independent auditors.

POLICE's net position restricted for benefits increased by \$3.4 billion, or 9 percent, to \$42.6 billion in Fiscal Year 2018. POLICE's net position restricted for benefits increased in Fiscal Years 2018 and 2017 due to an increase in assets mainly related to growth in investments and the overall national economy. During Fiscal Year 2018, member contributions decreased by 3.4 percent to \$267 million. This change was due to members decreasing their deductions for their pensions. Benefit payments and withdrawals was \$3.2 billion, due to an increase in number of retirees who accessed their benefits. The administration expense was \$21.1 million, due to an increase in operational expenses.

The Comprehensive Officers Pension System (COPS) current operational software upgrade project began in May 2018 and is slated to be rolled out in four phases, with plans to be completed within four to five years. The upgrade for COPS will help improve workflows and procedures and provide better customer service for members.

Auditor recommendations are either underway or completed, and a vendor has been hired to begin a preliminary walkthrough of the system for cyber insurance.

Fiscal Year 2018 was an important year for the pension fund, with the growth regarding total net position, the COPS project, and a continued building of working relationships with the Comptroller's Office, the Actuary's Office, and the audit team at Marks Paneth.

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

- The Actuary's office explained the current process for transfers from the main fund to the Variable Supplemental Fund (VSF) and that the transfer of funds is not automatic.
- A committee is being formed to prepare a detailed disaster recovery plan, which should be finalized in a couple of months.
- Current year comments on the management letter have been addressed.
- Previous year recommendations are being addressed.

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

[The actuary, Ms. Sherry Chan, responded to an earlier question for TRS regarding information on page 52. Methodology changes adopted in 2018 and changes to previous assumptions resulted in differences. All systems will be reviewed for consistencies.]

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 are NYCERS' independent auditors.

NYCERS' combined net position restricted for benefits increased by \$4 billion, or 6.5 percent, from \$61.6 billion at June 30, 2017 to \$65.6 billion at June 30, 2018. The main reason for the higher net position was an increase in return on the investment portfolio, primarily in the equity markets.

The total pension fund returned 8.56 percent for Fiscal Year 2018, slightly beating NYCERS' policy benchmark of 7.84 percent. Domestic equities returned 14.71 percent, slightly lower than the Russell 3000 benchmark of 14.78 percent. International equity makes up 20 percent of the total portfolio. The non-U.S. equities portion returned 11.15 percent and the emerging markets portion returned 1.57 percent. The total fixed income segment returned 1.29 percent.

The QPP transferred approximately \$5 million to four out of the five VSFs in benefit payments. These are the smaller Variable Supplement Funds, such as the Housing Police, Housing Police Superior Officers, Transit Police, and Transit Police Superior Officers, and they are funded on a pay-as-you-go basis. NYCERS transfers in December of each year from the Contingent Reserve Fund to those VSFs to cover the benefit payments. Since funds are closed to new entrants, the benefit payments are expected to decrease each year.

Based on the actuary's estimate as of June 30, 2018, a SKIM is payable to the Correction Officers' VSF in the amount of \$205 million. In December, NYCERS transferred 90 percent of the estimate, which is \$184 million, from the QPP to the Correction Officers' VSF. Because there was sufficient funds, the Correction Officers' VSF was able to make a payment for calendar year 2018. Starting from calendar year 2019, the \$12,000 a year payment will be guaranteed by law.

As a result of one audit finding noted as a significant deficiency relating to the coding of certain transactions sent to the Office of the Actuary (OA), NYCERS and the OA met and established primary contacts for the request and transmission of data. Together, NYCERS and OA will be reviewing all requirements of the data feeds provided to the OA to ensure that the data provided meets the requirements. NYCERS and OA have also committed to ensuring that NYCERS understands how the data is used by the OA, so that it can best ensure that the correct data is provided.

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

- Regarding VSFs, an actuarial estimate of the life expectancy will be reviewed for next year.
- Discussions have taken place with the NYC Law Department regarding references to Off-Track Betting (OTB) in the financials.
- Prior year comments in the Management Letter are IT-related issues mostly regarding the level of documentation, and are either being worked on or represent circumstances where NYCERS deems the existing level of documentation to be adequate.
- Any gaps noted during the system implementation process are being documented and handled and continue to be an ongoing process.

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

New York City Fire Pension Funds

Ms. Maureen Dale, Chief Accountant for the New York City Fire Pension Funds (FIRE), introduced the other representatives of FIRE present, and noted that Marks Paneth are FIRE's independent auditors.

Fiscal year 2018 was a successful year for FIRE; its net position restricted for benefits increased by 9.1 percent over Fiscal Year 2017. The overall growth for 2018 can be attributed to the excess of total contributions and net investment income over pension benefits paid. In addition, a significant net appreciation of invested assets served to increase net investment income reported for the period. Member contributions were slightly lower at \$108.3 million. Employer contributions increased by 13.1 percent, to \$1.2 billion.

Combined benefit payments and withdrawals to retirees and beneficiaries were 3.8 percent greater, at approximately \$1.4 billion, inclusive of \$46.5 million in VSFs to firefighters, and \$24 million to fire officers. The QPP provided corpus funding for administrative expenses in the amount of \$6.4 million; expenses included personnel salaries and reimbursements to FDNY for overhead expenses. There was a preliminary skim of \$15 million to firefighters.

On the membership side, FDNY hired two classes of probationary firefighters and approximately 640 of these new hires are now contributing members to Tier 3 and modified Tier 3 enhanced plans. Four hundred new retirees were added to the pension rolls and are now receiving 90 percent of their benefits.

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

- There was no skim to the officers because the VSF was already 100 percent funded.

- The discrepancy in inclusion/exclusion of U.S. Treasury Bonds (page 23) will be corrected for next year.
- FIRE noted that management letter comments still open from prior years, are related to an insufficient number of personnel to address these items. FIRE anticipates that, once it moves to 1 Battery Park Plaza, new personnel can be hired to address these as a top priority.

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

The New York City Other Postemployment Benefits Plan

Mr. Raymond Lee, a representative of The New York City Other Postemployment Benefits Plan (OPEB) and Assistant Director for Accounting Services at the Office of Management and Budget (OMB), introduced the other representative of OMB and the Bureau of Asset Management present, and noted that Marks Paneth are OPEB's independent auditors.

The total OPEB assets have increased slightly, about \$126 million, primarily due to an increase in investments of \$748 million, offset by a decrease in cash and cash equivalents of \$617.3 million. Both changes were largely associated with the Plan investing in more securities with maturities greater than 90 days at the time of purchase; this resulted in fewer investments classified as cash and cash equivalents. The increase in investments was also due to a \$100 million discretionary contribution by the City. The decrease in receivables was primarily a result of the City's Medicare Part B payments that it owes to OPEB, accumulated over a number of years.

Regarding employer contributions, while it appears that the OPEB Pay-Go has decreased significantly year over year, that was primarily due to the \$400 million prepayment the City contributed to OPEB in Fiscal Year 2017; i.e. the City prepaid \$400 million, and put in \$400 million less this year. In addition to the Pay-Go, the City also provided a \$300 million prepayment for Fiscal Year 2019 expenses and the \$100 million discretionary deposit mentioned earlier.

From the actuarial perspective, the total OPEB liability went up about \$10 billion. Besides the service costs and the interest, a portion of that was based on the changes in assumptions and part was due to the moving of the interest rates used to calculate the liability.

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

- There is a \$98 billion projected OPEB liability.
- The total net position of the Plan is about \$4.8 billion.
- The cash outlay for Medicare Part B is approximately \$300 million.

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

IV. Executive Session

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

V. Adjournment

There being no further business before the Committee, a motion was made to adjourn the January 23, 2019 Audit Committee meeting; the motion was unanimously approved.