

**AUDIT COMMITTEE MEETING OF THE BOARD OF ADMINISTRATION
RETIREMENT BOARD
WATER AND POWER EMPLOYEES' RETIREMENT PLAN**

MEETING – April 18, 2007

Present:

Eugene Canzano	Chairperson
Mike Moore	Audit Committee Member
Ron Vazquez	Audit Committee Member

Others Present:

Sangeeta Bhatia	Retirement Plan Manager
Mark Blunk	Assistant Retirement Plan Manager
Monette Carranceja	Assistant Retirement Plan Manager
Michael R. Wilkinson	Deputy City Attorney
Irene Colón Gonzalez	Recording Secretary

Chairman Canzano called the Audit Committee Meeting to order at 8:45 am.

Ms. Bhatia indicated a quorum of the Audit Committee was present.

1. **Approval of Audit Committee Minutes:**
 - a) **November 8, 2006**
 - b) **December 20, 2006**

Mr. Moore moved adoption of the above item 1 on consent. Seconded by Mr. Vazquez and carried unanimously after the following vote:

Ayes: Canzano, Moore, and Vazquez
Nays: None

There were no public comments.

2. **Discussion of Responses to the Request for Proposal for Actuarial Consultant and possible action**

Ms. Bhatia reported four responses were received to the Request for Proposal (RFP) for actuarial consultant and stated the responses were sent to the Audit Committee Members. She noted a summary of the responses and staff's review was included in the Audit Committee package stating Mark Blunk oversaw the review of the responses. Ms. Bhatia stated the Committee Members had expressed an interest in reviewing these responses. She noted that staff's review was included as an aide to the Committee as well as the criteria that was used to evaluate the responses. She added that Mr. Blunk was available to answer any questions of the Committee.

Mr. Canzano noted that four proposals were received. He asked for Staff's feeling on "the competency of any one of the four to accomplish the task and to do it at good value to the Plan." Mr. Blunk responded that Staff felt that all four were competent enough to do the job and did not see any lack of competency in regards to the Staff review. Mr. Canzano complemented and thanked Mr. Blunk and staff on the "recap" of the information and stated it had assisted him greatly in going over the proposals, noting the tables and explanations were especially helpful. Mr. Canzano then turned to the Committee for discussion.

Mr. Moore stated Staff had suggested Committee Members decide if they wanted to interview all four respondents or "narrow the field down" before any presentations are made to the Committee. He stated he would like to ask Staff some questions regarding one respondent he was considering dropping – AON, who had the lowest score based on Staff's review. Mr. Moore noted AON was a subsidiary of a major insurance brokerage firm and it appeared that their consultant wing does a lot of indirect "brokeraging" by doing benefit studies for various plans around the country. Mr. Moore continued that he was a bit surprised that they do not do any actuarial work for any organizations as large as our Plan, although they do list doing work for a number of State retirement plans. He noted AON does a lot of consulting for organizations, but not a lot of actuarial work. Mr. Blunk replied AON had hired a person who had experience in that area to be a part of their team. He noted the experience AON listed for larger systems is actually related to the experience, not inside the firm, but outside the firm, for one of their team members. He added that was one of the reasons they were given a lower score was because Staff was looking for actuarial work experience in governmental pensions the size of the Plan and the experience AON provided was related to experience outside of the firm by one of their lead actuaries. Mr. Moore indicated one of his other concerns regarding AON was that their financial reports show they had to pay a heavy settlement with the New York Attorney General because of the fact that they were found to have given "kickbacks" not disclosed to clients. He noted AON was "into it in a very large way" and they had to pay about a \$200 million settlement. Mr. Blunk noted that the letter from the attorney mentioned in their proposal was not included and stated Staff would require they present a copy of this letter if they are chosen to make a presentation. Mr. Moore asked Mr. Blunk if he knew what percentage of the consulting arms revenue comes more from "insurance-type" activities as opposed to what would be considered more "classic" human resources. Mr. Blunk responded that he did not see more than the revenue reporting percentages on the page where they showed the consulting, but had no details on the breakdown within those percentages. Ms. Bhatia added that the reference checks had not yet been done because they wanted to wait for direction from the Committee on who they wanted to have proceed in the process. Mr. Blunk stated that if the Committee wanted to ask the respondents to be prepared for any particular areas of concerns, he could convey those concerns back to them before they come to present.

Mr. Moore stated that three of the firms are well qualified firms. He added that AON, based on the credentials of someone they recently brought in, has experience but he does have some questions. Mr. Moore added that he is fine with interviewing all four respondents. Mr. Vazquez stated he would like to narrow the field to two or three. Mr.

Canzano noted, based on what he saw and using the rankings, he feels that it could be limited to two or three.

Mr. Blunk informed the Committee that the target date to interview the potential actuarial consultants was May 16, 2007.

Mr. Vazquez stated that the regular Board materials mentioned EFI, within the scope the Board engaged them to work with PCA, could present a conflict of interest if they are also chosen as the Plan's actuary. He asked Deputy City Attorney Michael Wilkinson's opinion. Mr. Wilkinson explained the concern he raised in his Board memo speaks to the conflict of interest if EFI was selected. He noted that a losing bidder might complain that "the deck was stacked against them." Mr. Vazquez commented that in looking at the ratings assigned by the four raters from the Retirement Plan Office, EFI does not have much experience under "Background and Qualifications". He added the last page of the rating package states each respondent must be evaluated based on their own merits and is not to be compared to the other proposals for evaluation. Mr. Vazquez stated he had never seen this stated before; especially when you are looking at things such as costs. Mr. Blunk explained the goal was to do the individual ratings based upon the individual focus of each one first and then later to get together and look at the ratings to see if there were any major points of disagreement. He added that the raters met regarding the final ratings and concurred that they were a reasonable portrayal based on the summary scoring as to what they would have expected for the issues they ran into. He compared it to doing a personnel evaluation where you do not look at the individual within the context of the group until after you had looked at them individually.

Mr. Moore thanked Mr. Vazquez for asking the Deputy City Attorney questions regarding the potential conflict-of-interest with EFI. He stated he also felt very strongly about this issue and added when this matter comes up before the full Retirement Board later this morning, he wants the Committee to be very clear on this issue,

Mr. Moore made a motion that the Committee interview three firms, Buck, EFI and The Segal Company. Seconded by Mr. Vazquez and carried unanimously after the following vote:

Ayes: Canzano, Vazquez and Moore.

Nays: None

Ms. Bhatia clarified presentations will be scheduled for May 16, 2007. She stated Ms. Colón Gonzalez will be contacting Committee Members to check on their availability.

The Audit Committee adjourned at 9:00 am.

EUGENE CANZANO
Chairperson

SANGEETA BHATIA
Secretary

IRENE COLÓN-GONZALEZ
Recording Secretary