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

MEETING – June 6, 2007

Present:

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

Others Present:

Sangeeta Bhatia	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 8:36 am.

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

There were no public comments

1. Discussion of responses to the Request for Proposal for Actuarial Consultant and possible action (continued from May 16, 2007 Audit Committee Meeting)

Ms. Bhatia stated at the May 16, 2007 Audit Committee meeting Staff was asked to obtain additional information, and to determine the extent to which the Buck consultants expertise was in the area of software tools that they develop and implement in various firms. She stated Staff has found that Buck Consultants has an emphasis on the consulting aspect, not the implementation of software. Ms. Bhatia stated both of the firms received positive references, one reference for Buck did indicate the concern over recent turnover, however Buck had addressed the issue during their presentation at the previous Audit Committee Meeting. She stated both companies are capable of performing the duties of actuarial consultant. Ms. Bhatia stated Staff was informed that 9% of Buck's total revenue comes from actuarial work.

Mr. Canzano inquired if The Segal Company is solely an actuary or do they also provide consulting work. Ms. Bhatia stated she believes The Segal Company also provides consulting services however, she believes 25% of their revenue is from actuarial services for public funds.

Ms. Bhatia explained the fees for both companies are very similar.

Mr. Vazquez stated he was not in attendance at the previous Audit Committee meeting and requested a recap. The committee members provided Mr. Vazquez with a recap of the May 16, 2007 Audit Committee meeting.

Mr. Vazquez stated he believes The Segal Company has been selected as the Department's actuary. Mr. Vazquez noted Buck also submitted a proposal for actuarial services to the Department. He stated he has been pleased with the performance of The Segal Company and Mr. Paul Angelo. Mr. Vazquez stated while Buck is capable of performing the actuary work for the Plan, he does not see a compelling reason for changing actuaries based on the level of comfort he has with The Segal Company. He also noted he does not believe there is a conflict of interest based on The Segal Company performing actuarial services for the Department and the Plan. Mr. Vazquez stated The Segal Company maintains complete independence between the work for the Department and the work for the Plan. Mr. Moore stated he also likes the Segal Company. He stated he is a little more concerned than Mr. Vazquez with what may be only the appearance of a potential conflict of interest. He stated the actuary, in his opinion, is the most important consultant the Board will hire. Mr. Moore stated this is a significant issue to him in terms of potential for problems in the future or for the perception that there may be problems. He stated he was hoping the issue could be sorted out. Mr. Moore stated normally he would select the Segal Company however he is not sure how to deal with the potential conflict of interest issue.

Mr. Vazquez asked what are the potential conflicts Mr. Moore is concerned with. He stated The Segal Company will be performing the actuarial work on the Other Post Employment Benefits (OPEB) and probably making actuarial assumptions regarding the impact, changes in contracts would have on the Department. He stated the work has to be performed and the results are what they are. Mr. Moore stated the Board will want to feel comfortable that the actuarial recommendations are based solely on the numbers. He added if the actuarial service provider receives revenue from both the Department and the Plan, the potential for conflict exists because the actuary is trying to please both clients.

Ms. Bhatia noted the issue of perceived conflict of interest was brought up at the previous Audit Committee meeting. She stated both The Segal Company and Buck admitted to having applied to the Department for the actuarial consultant job. Ms. Bhatia stated both of the firms indicated they would disclose any potential conflicts of interest. She stated Staff drafted some language that could be included in the contract. Ms. Bhatia stated potential conflicts of interest with regards to the actuarial consultant providing services to both the Plan and the Department could not be guaranteed to not arise in the future. She stated Staff can include language in the contract to make the vendor aware of the concern and inform them of the notification and information requirements. Ms. Bhatia stated the potential for conflict could also exist with any number of situations, not just the Department. She stated the Committee has received sample language that could be included in the contract, based on Committee feedback.

Mr. Vazquez noted he understands the concerns of the potential for conflict of interest. He added he also believes having the same actuary for the Department and the Plan allows for some synergy and consistency in working with the actuarial data. Mr.

Vazquez noted present are two representatives from the Department's Financial Services Organization (FSO) who will be responsible for overseeing the Segal contract with the Department. Mr. Vazquez requested the representatives to address the Committee.

Mr. William Roberts, Assistant Controller and Ms. Ann Santilli, Manager of Accounting and Financial Reporting approached the Board table.

Chairperson Canzano recognized the FSO representatives.

Ms. Santilli informed the Committee the Request for Proposal (RFP) for actuarial services is being conducted and it is for $400,000 over a three- year period. She stated she is unaware of what constitutes a substantial amount of money for the Plan; however she noted the Department does not spend a lot of money on actuarial services. She stated on an annual basis the Department spends approximately $50,000 or less. Ms. Santilli stated last year $128,000 was spent due to the amount of work necessary to set up the Post Retirement Health Care Trust Fund. She added the Department does not have the actuary perform a large amount of work, however the work must be done. Ms. Santilli indicated that The Segal Company was selected because they were the Plan's actuary. She explained the Department's former actuary was PriceWaterhouse, who no longer can provide actuarial services for the Department due to Sarbanes Oxley requirements. Ms. Santilli stated the The Segal Company was very helpful and using the data already collected for the Plan helped them to perform a cost-effective job for the Department.

Mr. Moore inquired if either Segal or Buck discussed any savings available if they were hired as actuary for both the Department and the Plan. Ms. Santilli responded in the negative.

Mr. Canzano stated he believes the Segal Company had originally been hired to work for the Plan, and subsequently received approval from the Board to perform some work for the Department. He stated two or three years after the Board authorized the work for the Department, The Segal Company performed additional work for the Department without notifying the Board. Mr. Canzano stated during the May 16, 2007 interviews the Segal Company representatives were not able to explain why the Board did not receive notification. Ms. Santilli stated the first year The Segal Company worked for the Department, the Department believed the Plan's contract could be used and the Department was in a pinch because of the late notice received that PriceWaterhouse could not perform the actuarial work. She stated she believed the Plan received the letter because The Segal Company was going to bill the Plan and the Department would reimburse the Plan. After that, the Department obtained their own contract with The Segal Company. Ms. Bhatia clarified the letter was provided to the Board at the time when The Segal Company and the Department were in discussions; however a separate resolution approved The Segal Company to work with the Department under a separate contract. She stated the Resolution was the authority and no longer was a case by case authorization necessary. Ms. Bhatia stated the Retirement Plan Office Staff provides the data to the actuary and there are some efficiencies if the same actuary is doing the work, although there are different contracts.

Mr. Vazquez inquired as to when the separate contract was obtained, the dollar expenditure and time period covered. Ms. Santilli explained the Department attempted to use the contract for the 2003 study, however it was denied and the Department had to obtain an emergency contract for approximately $54,000; in 2004 the contract was for $48,000; and the last contract was for 2005-2006 for the study was approximately $40,000 however the total contract was $128,000 because Mr. Angelo had to perform consulting work with the City Attorney and staff.

Mr. Moore inquired how much the Plan's contract would be for actuarial services. Ms. Bhatia stated it would be approximately $75,000 annually. Mr. Vazquez stated the contract with the Department would be approximately $40,000 to $50,000 per year.

Mr. Moore inquired as to how Mr. Vazquez would feel if both of the contracts were billed through the Board as opposed to two different contracts. Mr. Vazquez stated he would be comfortable with that. He added the Department has a need for actuarial services and is comfortable with Segal. Mr. Vazquez stated it does not matter how the service is billed to the Department. He inquired if Mr. Roberts or Ms. Santilli had a different opinion. Mr. Roberts responded in the negative. He added it is not foreseen that within the next three years any new regulations will be enacted requiring the actuary to conduct any different studies, so they are anticipating the contract amount will be approximately $40,000-$50,000 per year.

Ms. Bhatia stated The Segal Company has done valuations in connection with the meet and confer process for negotiated benefits and historically the Board has not participated with that even in connection with contracts. She stated the benefits are implemented by the Board, however the Plan is not responsible for paying for the costs of negotiation. Ms. Santilli stated she believes the Department controls the funding policy of the OPEB and the Retirement Board controls the funding policy of the Retirement Plan, noting that is one reason why there was a need for separate contracts. Ms. Bhatia stated she also believes it is necessary to have a separation.

Mr. Canzano stated he remembers President Romero being very clear on his expectation of being notified regarding the actuarial work. Ms. Bhatia stated President Romero was not at the Audit Committee meeting, however he has been provided with a copy of the package, including the Resolution. Mr. Canzano stated he is referring to the Regular Board meeting when President Romero indicated he had not received notification about the work being done by the actuary on the behalf of the Department. Ms. Bhatia agreed that President Romero had brought the subject up at a Regular Board meeting, and noted Staff had researched the topic and found the Resolution granting the authority.

Mr. Vazquez requested Ms. Bhatia read the Resolution. Ms. Bhatia complied with Mr. Vazquez's request. Mr. Canzano stated the Resolution that Ms. Bhatia read sounded specific to an event not as carte blanche. He inquired of Ms. Bhatia if she believed the resolution granted carte blanche authority. Ms. Bhatia responded that she believed that it did grant carte blanche authority, noting the resolution was for a separate contract. She added the letter of information was provided to the Board, followed by the Resolution in January 2002.

Mr. Moore stated he is now in agreement that there be two separate contracts. He stated as much as he likes The Segal Company and enjoys working with Mr. Angelo based on the other issues he is now in favor of retaining Buck as the Plan's actuary.

Mr. Moore moved the recommendation of Buck Consultants for actuarial consultant. Seconded by Mr. Vazquez and carried unanimously after the following vote:

Ayes: Canzano, Moore, and Vazquez
Nays: None

Mr. Vazquez inquired as to when The Segal company contract expires. Ms. Bhatia stated in September and noted Staff would like to finalize the new actuarial services contract as soon as possible. Mr. Moore inquired if the new actuarial study would be conducted by the new actuary, Buck Consultants. Ms. Bhatia responded in the affirmative.

Mr. Canzano stated he feels much more comfortable having a separate actuary for the Plan and the Department. Mr. Vazquez stated he has been very comfortable with The Segal Company and would have been comfortable going forward with them as the Department and the Plan's actuary. He stated he does not see the conflict of interest. Mr. Vazquez added his support of the motion is based on the fact that he was not present during the interviews so he choose to rely on Mr. Canzano and Mr. Moore with regard to Buck Consulting.

2. Discussion of various issues by the Plan's external auditors, Macias, Gini & Co.

Mr. James Godsey, Partner, Mr. Paul Cho, Sr. and Mr. David Livingston, Sr. of Macias, Gini, & Co. (Macias) approached the Board table. Chairperson Canzano recognized the representatives of Macias.

E) Discussion of Death Benefit Fund

Mr. Godsey indicated there was a new issue coming up this year dealing with the Death Benefit fund. Under the standards, it appears that there will be a requirement for an actuarial study. In the past, it was treated more along the lines of insurance reporting and the setting up of adequate reserves. Mr. Godsey stated it appears that this particular plan will require a study. He added that there have been some preliminary discussions with The Segal Company about the possibility of an actuarial study and they concurred. Mr. Godsey informed the Board members that once the final decision has been approved, they will meet with The Segal Company and management because it will have some impact.

A) Discussion of Retirement Plan Office's Operational Assessment Reports prepared by Deloitte & Touche

Mr. Livingston stated his company is still going through the process of reviewing the reports prepared by Deloitte & Touche (Deloitte). He noted most of the recommendations related to process and/or procedural changes in the Retirement Plan. Mr. Livingston stated Macias would need to consider the recommendations on a go forward basis for 2007 and above.

Mr. Moore inquired how would Macias consider the recommendations on a go forward basis. He stated the Board and Staff wanted to proceed with the recommendations. Mr. Livingston responded his company would review the extent to which the recommendations are being implemented. Mr. Godsey noted the recommendations came out this year and are in the process of being implemented, but they were not implemented for the entire fiscal period. He stated Macias has to go back and assess the risk to determine if the Plan was in compliance with the investment policies.

B) Discussion of audit approach

Mr. Cho directed the Committee members to the page in the packet entitled "Audit Approach Risk Indicators". He noted the standard approach taken in all of Macias' audits is to consider which type of risk are involved for the specific client in the areas of: problems; changes; complexities; and the utilization of expert knowledge. He stated the key items for the Plan this fiscal year are the changes and complexities that are going to occur including: the hiring of new actuaries, Governmental Accounting Standards Board (GASB) 43, and the OPEB funds being transferred over to the retirement plan office and calculation of retirement benefits. Mr. Cho added Macias does have access to expert knowledge noting they consult with a consulting actuary. Mr. Livingston added the actuarial studies are critical to the overall financial reporting of the retirement system. He stated Macias has independent actuaries on contract who advise them. Mr. Livingston stated they look at the actuarial process to ensure it was done in accordance with accounting and actuarial standards.

Mr. Vazquez asked if Macias reviews the results of the experience study. Mr. Livingston stated the experience study is reviewed to the extent that it has impact on the actuarial valuation. He added any time there is a change based upon the study he has an obligation to review the change and agree that there is a rationale for the change. Mr. Livingston stated based upon the experience ratings of the benefits being paid out, if the results impacts that actuarial study, Macias would disclose that. He stated if there is a concern that the change was not appropriate, Macias would have to come forward and address the issue with the Board.

Mr. Vazquez inquired if there is any audit responsibility of recommendations for changes that are not implemented. Mr. Livingston stated this is not a black and white situation, but noted there are times when he would be concerned with some actuarial recommendations, even if they were not implemented.

C) Discussion of Retiree's Health Benefit Fund

Mr. Canzano inquired as to how GASB 43 and GASB 45 relate. Mr. Livingston stated GASB 43 addresses the financial statements for the particular plan, while GASB 45 is the reporting disclosures for the employer.

Ms. Santilli noted the Department has already adopted GASB 45 and has started those disclosures. She stated during the current fiscal year the assets were moved to the Retiree Health Trust Fund so the assets could be taken advantage of in the actuarial study. Ms. Santilli stated the Department will continue to report the GASB 45 disclosures and will work with the Plan on the GASB 43 disclosures for the new financial statements.

Mr. Moore inquired if Macias is concerned with having to rely on outside people for information related to the OPEB funds and expenses. Mr. Livingston stated once the specific approach is determined, if Macias is not comfortable with it, they will inform the Board.

D) Discussion of Board/Committee's concerns for the audit of 2006-07

Mr. Cho inquired if the Board/Committee had any particular concerns related to the Plan's 2006-07 audit of financial statements.

Mr. Livingston stated Macias would be conducting individual interviews with Board members. He stated he would like the Committee members to have total access to the audit process.

E) Discussion of Death Benefit Fund

Item E was addressed before item A was discussed.

F) Discussion of SAS 99 and Audit Committee Members who will be interviewed.

Mr. Livingston provided a brief overview of key components of Statement on Auditing Standards (SAS) 99. He offered to discuss SAS 99 in detail. Mr. Livingston noted SAS 99 requires the auditors to meet with the committee members individually to discuss issues related to the upcoming audit.

The Audit Committee adjourned at 9:30 am.

EUGENE CANZANO Chairperson	Date	SANGEETA BHATIA Secretary	Date

IRENE COLÓN-GONZALEZ Recording Secretary	Date